

Table with subscription rates for various countries including Algeria, Argentina, Australia, etc.

BASEBALL SUNDAY RESULTS See SPORTS, Page 19

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Gorbachev's Dilemmas

Pulling Out Of Afghan Quagmire

By Don Oberdorfer Washington Post Service

The Soviet Union's fifth march out of the quagmire of Afghanistan began to develop within a month of Mikhail S. Gorbachev's rise to power in March 1985...

Party Inertia Hobbles His Reform Plan

By Philip Taubman New York Times Service

MOSCOW — There is a growing sense in the Soviet Union that major elements of Mikhail S. Gorbachev's effort to reshape the country have been crippled...

Two months before a crucial party meeting that Mr. Gorbachev hopes will give his program momentum, Soviet officials, in private and public, are warning that many of his policies are not working.

From a high point in the first half of 1987, when the party's Central Committee approved an ambitious program of economic and political change...

The initiatives most affected are those that deal with economic change, including new programs and laws designed to decentralize the economy and give greater autonomy to factory and farm managers...

The attention does not seem to pose an immediate threat to Mr. Gorbachev's position as Soviet leader, although there have been recent hints of political instability in the party leadership.

Unconfirmed but widely believed reports of a bitter clash between Mr. Gorbachev and the party's No. 2 official, Yegor K. Ligachev, have circulated in Moscow in recent days...

The hijackers, believed to be pro-Iranian Shiite Muslims, first extended a deadline for leaving Algeria, then renewed threats to kill the 28 passengers and three crew members on the jet.

The midday message, relayed through the Algerian airport control tower, said the hijackers "agreed to extend" their deadline at the request of their "Algerian brothers" to allow the discussions to go forward.

But Algerian sources acknowledged that they had accomplished little more than secure the release of a diabetic hostage since the 747 landed in Algiers on Wednesday.

The sources added that, without a breakthrough, which appeared increasingly dim, they would not object if the airliner flew elsewhere.

The hijackers asked Saturday for fuel to leave Algeria for an undisclosed destination "to settle their account with Kuwait" because, they said, "We don't want to have the massacre in a friendly country."

On Sunday they revealed that they had fixed a deadline in a message asking for 20 tons of kerosene, or enough to power the plane's air-conditioning system for two days.

But there was no immediate confirmation from the Algerians that any such deadline had been set. Nor did the hijackers set any new deadline for their departure.

The threat Sunday to kill hostages — similar threats have been made almost daily — was contained in a tape-recorded message from a hostage named Fahmi Awad Doukhi, son of a well-known deceased Kuwaiti singer.



As West Bank protests continued, Israeli troops fired live ammunition and rubber bullets Sunday at demonstrators in El Hader.

Israelis Seal Off Enclaves

Death Toll at 14 After Riots Over PLO Aide's Death

By Glenn Frankel Washington Post Service

JERUSALEM — The Israeli Army sealed off most of the occupied West Bank and Gaza Strip on Sunday and imposed curfews on nearly a half million Palestinians following a wave of violence protesting the assassination of a senior Palestinian Liberation Organization leader.

At least 14 Arabs were killed Saturday by Israeli troops in the bloodiest violence yet in the occupied territories as Palestinians demonstrated their anger over the killing of a senior PLO leader.

Israel is widely believed to have carried out the killing of the No. 2 PLO leader.

Both the Gaza Strip and the West Bank erupted following radio reports of Mr. Wazir's death. Thousands of mourners took to the streets carrying Palestinian flags and staging mock funerals in several major towns and refugee camps.

In some places, the army backed off, allowing mourners to vent their anger without confrontation. But in others, soldiers wedged into demonstrators using the aggressive tactics that led to a sudden jump in the death toll two weeks ago.

The worst violence was in the Gaza Strip, which was Mr. Wazir's home for 15 years. Plumes of black smoke from makeshift burning barricades were visible across the strip, and the streets of Gaza City were filled with grim young men wielding stones and bottles and waiting to confront army patrols.

United Nations officials asserted that Israeli troops opened fire in several areas without warning. "From reports we have, they used no warning shots, no tear gas and no rubber bullets — they just opened fire," said Bernard Mills, head of the UN Relief and Works Agency operations there. An Israeli Army spokesman denied the allegation.

The toll Saturday brings to at least 142 the number of Arabs killed since the Palestinian uprising began Dec. 9. Two Israelis, one soldier and one civilian, also have been killed.

Palestinians were ordered Sunday to remain in their homes in 15 refugee camps, as well as in the West Bank city of Nablus and the town of Amman. Other major West Bank population centers — including Hebron, Bethlehem, Ramallah, Kalkiya and Tulkarm — were declared closed military zones. Journalists were ordered to leave.

See ISRAEL, Page 6

Hijackers Give Mediators More Time

By Jonathan C. Randall Washington Post Service

ALGIERS — Hijackers holding 31 Arab hostages aboard a Kuwait Airways jumbo jet relented Sunday and gave the Algerian government more time to break the deadlock.

The hijackers, believed to be pro-Iranian Shiite Muslims, first extended a deadline for leaving Algeria, then renewed threats to kill the 28 passengers and three crew members on the jet.

The midday message, relayed through the Algerian airport control tower, said the hijackers "agreed to extend" their deadline at the request of their "Algerian brothers" to allow the discussions to go forward.

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The threat Sunday to kill hostages — similar threats have been made almost daily — was contained in a tape-recorded message from a hostage named Fahmi Awad Doukhi, son of a well-known deceased Kuwaiti singer.

After sending greetings to his family, Mr. Doukhi said, "I pray to God the Kuwait government releases the 17 young men." The reference was to the hijackers' central demand, that 17 Arabs held in jail in Kuwait for terrorist attacks against oil installations and the French and American embassies in December 1983.

"Otherwise," he added, "our fate will be black." The phrase is an Arabic locution for death.

The passengers are all well," Mr. Doukhi also told the Algerian control tower.

Meanwhile, airport security was tightened with armed policemen appearing on the roof of the main terminal building and stationed at regular intervals on the apron in an arc around the hijacked aircraft.

In a flurry of diplomatic exchanges believed linked with the hijacking, the Algerian foreign minister, Ahmad Taleh Ibrahim, conferred Saturday with the Libyan leader, Colonel Moammar Gadhafi, in Tripoli, according to the official Algerian news agency.

The meeting set off speculation that Libya might be the next destination for the hijacked Kuwait Airways Flight 422, which was hijacked April 5 on its way from Bangkok to Kuwait, then diverted to Meshed, in north-eastern Iran, and then to Cyprus, before landing in Algiers.

But Colonel Gadhafi, now seeking to improve his image abroad, might well be reluctant to recall Libya's past role as a haven for terrorists, according to Western diplomats.

Moreover, Shiite Muslims, especially Lebanese, still blame him for the unsolved disappearance of Imam Moussa Sadr, the Iranian-born leader of Lebanese Shites. He disappeared while on a visit to Libya in 1978.

In other exchanges, the Algerian president, Chadli Bendjedid, talked on the telephone with King Fahd of Saudi Arabia and Sheikh Jaber al-Ahmad as-Sabah, the ruler of Kuwait.

The substance of their discussions was not disclosed, but they presumably dealt with the hijacking.

Meanwhile, sources close to the Palestine Liberation Organization said they feared they might be asked to renew their role as negotiators in the hijacking now that Algerian officials have reached an impasse.

PLO negotiators were in virtual charge of discussions that led to the plane's departure from Cyprus.

Yasser Arafat, the PLO chairman, recently blamed the hijacking on Iran, which made analysts doubt the PLO would be an acceptable interlocutor for the hijackers.

The hijackers released a total of 71 hostages during stops at Meshed, Cyprus and Algiers. But they killed two captives at Larnaca, Cyprus, and their remaining captives include three members of the Kuwaiti royal family.

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EDUCATION FRENCH MADE EAST COLLEGE UNIVERSITIES

HOTEL COLLEGES UNIVERSITIES

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U.S. Sets Study Of a 2d Airline

WASHINGTON (Reuters) — Transportation Secretary James H. Burnley 4th said Sunday that the government would undertake a major safety investigation of Continental Airlines Inc., similar to one being conducted into Eastern Air Lines Inc.

Continental is the flagship airline of Texas Air Corp., which also owns Eastern. Mr. Burnley said a review of Federal Aviation Administration files revealed almost \$1 million in potential fines pending against Continental.

Iraqi Offensive To Retake Faw

KUWAIT — Iraq launched a large offensive Sunday aimed at driving Iranian forces off the Faw Peninsula, where Iranian military authorities said their forces were being bombed during the day with chemical weapons. The Iraqis said "fierce fighting" was under way Sunday night.

The surprise offensive took place on the first day of Ramadan, the Moslem month of fasting.

IMF Adopts Aid Role in East Europe

By Jackson Diehl Washington Post Service

WARSAW — After years of watching from the sidelines, the International Monetary Fund is moving toward a major role in aiding debt-burdened countries in Eastern Europe and is exerting a significant influence over the Soviet bloc's most important economic reform programs.

Both Hungary and Yugoslavia, which have shunned the rigors of IMF stabilization programs in recent years, are now on the verge of receiving new "standby" loans from the agency and accepting IMF performance criteria.

The shift follows serious deterioration in the foreign debt status of the two countries during the last two years. In addition, IMF officials have agreed on an informal standby program with Poland for the last six months of this year, opening the months of this year, opening the way for the agency's first cooperative effort with Eastern Europe's largest and most economically troubled debtor. If successful, the

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PRAYERS FOR WARSAW VICTIMS — Mieczyslaw Szapiro, an elder of the small remaining community of Jews in Warsaw, leading a prayer during an independent rally on Sunday that commemorated the 45th anniversary of the Jewish ghetto uprising against the Nazis. Page 6.

In Upstate N.Y., It's Dukakis

By R.W. Apple Jr. New York Times Service

BUFFALO, N.Y. — There are two ways to look at the electoral calculus for the Democratic presidential primary in New York on Tuesday.

In New York City, the politicians remind everyone of the ethnic element and what it may mean to Governor Michael S. Dukakis of Massachusetts. The Reverend Jesse L. Jackson and Senator Albert Gore Jr. of Tennessee. About a quarter of the electorate is Jewish, they say, and about a quarter of it is black.

Upstate, the division is made along geographical lines. The region has a bit more than half the primary vote in the five boroughs of the city, they say, less than a quarter in the city's suburbs and slightly more than a quarter north of the Westchester County line in places such as Buffalo, Rochester and Albany.

For Mr. Dukakis, the key to victory this year may lie upstate, despite all the storm downstate over the Jewish vote.

The Massachusetts governor has built what looks like an impregnable lead upstate, according to opinion polls, party leaders and journalists in the region. Recent statewide polls show Mr. Dukakis with a substantial but still not decisive margin, in large part because there are more blacks supporting Mr. Jackson in the New York City area than there are upstate.

A CBS News Poll conducted Tuesday, Wednesday and Thursday showed that, among upstate Democratic primary voters, Mr. Dukakis had about half, Mr. Gore less than a tenth.

A survey of Erie County, which includes the Buffalo area, produced similar findings in greater depth. A poll of 624 registered voters, taken by Goldhaber Research Associates on Monday and Tuesday, gave Mr. Dukakis 52 percent, Mr. Jackson 17 percent, Mr. Gore 7 percent and

Senator Paul Simon of Illinois, who is no longer campaigning actively, 1 percent, with 23 percent undecided. Mr. Jackson has almost twice as big a share in statewide polls.

Commenting on his poll, Gerald M. Goldhaber, head of the survey firm, said it showed that "Eric County's not ready for Jackson, and they're ready for Cuomo, and they'll settle for Dukakis if they have no other choice." Mario M. Cuomo, the governor of New York, insisted last week that he would not accept a draft as the Democratic presidential candidate.

The picture appears similar elsewhere in the region. A leading figure in the Albany Democratic organization, who asked not to be identified by name, said Mr. Dukakis "would have to do something unusually stupid" to avoid finishing first in the state capital.

Mr. Dukakis has built his big lead upstate without benefit of extensive campaigning. The key has

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To Jumpy U.S. Markets, Good Economic News Smells Bad

By Reginald Dale International Herald Tribune

Six months after the great market collapse of 1987, the good news is that the U.S. economy is far healthier than almost anyone expected.

The bad news is that the good news gives Wall Street the jitters.

To the uninitiated, markets can often seem perverse. But recent weeks have added a bizarre new twist. The faster the U.S. economy expands, the more anxiously Wall Street seems to worry that it will contract.

And the regular kind of bad news, like the poor U.S. trade data that sent stocks and the dollar reeling on Thursday, is still just as bad.

Some people think the market doesn't even want good news. "The market is desperate for real news," said Howard Kurz, a partner in the New York investment management firm Buchen, Kurz & Co. "Even micro-news can push things around. But the market is

less interested in good news. It wants drama, and there is greater drama on the downside." What sounds like a new school of inverse analysis has been appearing in the market reports: Wall Street

Recession, of course, is still bad news for Wall Street, although it might theoretically be good for the dollar. But growth is now bad news too, because it could lead to inflation and then to recession. Growth

Growth is now bad news because it could lead to inflation and then to recession. Growth also means higher imports, which are bad for trade figures and the dollar.

is "unmoved" by declining U.S. unemployment: the stock market, an analyst said, "was oversold on the coming recession."

In less topsy-turvy times, it was simpler: Economic growth was good for corporate profits and thus good for the market; recession was bad for the opposite

also means higher imports, which are bad for the trade figures and bad for the dollar.

Either way, there is little hope of relief in the shape of good news from the foreign exchange market. "Whether the dollar goes up or down, it's bad for Wall Street," said J. Paul Horne, Smith Barney's Paris-based international economist. "A higher dollar per-

sonalizes U.S. exporters. A depreciating dollar leads to higher interest rates."

What has happened, according to economists and market analysts, is the following:

Immediately after the October stock market collapse, most experts started forecasting a U.S. recession for 1988. "The only question then was whether it would be a recession or a depression," Mr. Kurz said. Since early this year, and particularly since last month, signs have started appearing that the U.S. economy is much stronger than the prophets of doom had predicted. A few figures, notably those showing declining unemployment and steady industrial output, are beginning to turn the consensus around.

A number of experts are now "in a race to predict the highest growth rate," Mr. Horne says. Some private analysts are now forecasting inflation-adjusted U.S. See MARKETS, Page 17

Hawke Confronts Racial and Economic Woes in Australia

As it celebrates its bicentennial, Australia is facing problems of national identity, economic growth and voter displeasure with a drop in living standards. Prime Minister Bob Hawke discussed these topics with Michael Richardson of the International Herald Tribune.

Q. Some critics say that Asian immigration and the government's promotion of multiculturalism are causing division in Australia and weakening a national identity based on an Anglo-Celtic heritage. Do these policies need to be reviewed?

A. Since 1972, successive Australian governments have viewed the notion of a racially discriminatory immigration policy as both abhorrent and contrary to the nation's best interests. As long as I am prime minister we will not see a return to such an odious system.

Q. Aborigines have often been the victims of European settlement in Australia. What is your government doing to remedy past injustices and present inequalities between black and white Australians?

A. Since my government came to office in 1983, expenditure on programs for aboriginal advancement by the government has increased in real terms by over 60 percent. We recently announced a

series of major policy initiatives to be worked through in full consultation and cooperation with aborigines and Torres Strait Islanders.

These initiatives include a proposal for a compact or treaty of understanding to be established between aboriginal and nonaboriginal Australians.

Q. What are the main problems facing Australia?

A. The major economic challenge facing Australia is the need to stem the

MONDAY Q&A

deterioration in our external situation, which is characterized by a large current account deficit, a very high level of foreign debt relative to GDP and an onerous debt service problem.

Falling commodity prices have played a large part in Australia's external problems. The balance of trade in goods and services must turn around from a deficit to a substantial surplus. This would require the volume of exports to grow at a rate significantly faster than world trade growth over the next decade.

Q. The center of gravity of world economics power has shifted to the Pacific basin from the Atlantic and this trend is likely to intensify in the years ahead. Has Australia made enough adjustments to its economy and social attitudes to take full

advantage of its position as a Pacific nation?

A. The Pacific region is by far the most important trading area for Australia. In 1982-83, almost 66 percent of Australian exports were directed to countries in the region and about 63 percent of our imports came from the region.

The government has a long-term objective of fostering the development of the Australian economy so that it will be more outward-looking, more internationally competitive and more adept at capitalizing upon the opportunities offered by the rapidly changing and dynamic Pacific economy.

Q. What role would you like to see Japan playing to promote security, political stability and economic growth in the Asian-Pacific region?

A. There is a need to recognize that Japan, through its economic and financial strength, already makes an important contribution to stability and security in this region, and to the West generally.

It is important also to evaluate critically the "traditional" notion that major economic powers need, at the same time, to be major military powers. The interdependence of nations in trade, industry and finance is itself an important stabilizing factor.

In view of Japan's constitutional re-

quirements, and domestic and regional sensitivities, Japan's involvement in regional security matters might well be in areas other than extending its military capabilities. There is a trend toward promoting regional development and growth.

Q. Relations between Australia and France have been strained over French nuclear testing in the Pacific and French policies in New Caledonia. Have relations improved in recent months?

A. Australia's policies on New Caledonia and French nuclear testing are well known. I expect the differences on these issues to continue, but that is no reason why Australia and France can't build on common interests in other areas.

Q. To what extent have protectionist measures in the United States affected Australia's longstanding security relationship with the U.S. under the ANZUS treaty, including maintenance of joint security facilities in Australia that provide America with important communication, intelligence and early warning of a nuclear attack?

A. We are concerned at the substantial damage which protectionist measures have done and are continuing to do to international commodity prices and the traditional markets on which efficient producers such as Australia rely for major portions of national revenue.

There is a danger that the financial difficulties Australia could experience as a result of protectionist trade policies would impair our ability to maintain effective Australian contributions to international economic and military security.

It should be clearly understood, however, that the fundamental national interests upon which security relations between Australia and the U.S. are based remain unchanged. The ANZUS treaty provides the fundamental framework within which Australia bases its defense planning and the ANZUS alliance underlines Australia's ability to maintain its posture of defense self-reliance.

Q. Do you regard a good relationship between Australia and Indonesia, the world's fifth-most-populous nation, as being a fundamental national security interest for Australia? What needs to be done to bring about closer ties between the two countries?

A. In the light of the strong nexus between regional security and our national security, we seek to maintain a sound and constructive relationship with Indonesia. The relationship, however, goes well beyond defense and security. There have been some strains in recent years but, overall, the relationship is working satisfactorily in most areas. We would like to see further development of the trade and economic relationship.

WORLD BRIEFS

1941 Red Army Executions Revealed

MOSCOW (UPI) — Stalin ordered the execution of more than 200 senior Red Army officers, who had been purged and imprisoned in secret police dungeons, as the Nazi armies approached Moscow, a Soviet magazine said Sunday.

The article in the magazine Ogonek, based on previously unpublished interviews in the mid-1960s with a World War II commander, Marshal Georgi K. Zhukov, indicated that those killed late in 1941 included the former head of the army, Mikhail N. Tukhachevsky. He was thought to have died immediately after a 1937 show trial.

The Soviet public also was told for the first time that a dozen years later Marshal Zhukov got his revenge by personally arresting Lavrenti P. Beria, the head of the secret police, who was executed after Stalin's death in 1953.

Contras Reject Latest Peace Proposal

MANAGUA (Reuters) — Leaders of the Nicaraguan rebels rejected on Sunday a peace proposal offered by the Sandinist government, calling the plan a setback that raised doubts over whether the civil war could be ended.

Adolfo Calero, a rebel leader, called for a separate agreement on unresolved technical issues before discussion on how to advance toward an armistice.

He said the Sandinist proposal, details of which were not immediately available, had produced "tremendous doubts" among rebel leaders over whether a preliminary agreement signed last month between the rebels and Managua could work. He said the latest proposal did not address democratic reforms to be undertaken.

Fighting Mars Korea Political Rallies

SEOUL (AP) — Supporters of rival candidates battled at political rallies throughout South Korea on Saturday during campaigning for legislative elections. The police said about 12 people were injured. It was the first day of "joint" rallies attended by opposing candidates in the April 26 balloting.

At stake are 299 National Assembly seats, of which 224 are to be filled by direct popular vote. The remaining 75 seats will be allocated to parties according to their share of the total vote.

Cubans Uncover a Smuggling Ring

HAVANA (Reuters) — Cuban customs officials have uncovered an international smuggling operation that brought scarce U.S. dollars and Western merchandise into Cuba, the official news agency Prensa Latina reported Saturday.

The agency said members of the Miami-based network, with connections in Mexico, Panama and Venezuela, came as tourists "with the obvious aim to bring difficulties to the Cuban economy."

It said the network moved millions of dollars per year, but it gave no figures and stressed that the contraband was out on a large scale.

Meese Nominee Weighs Pulling Out

WASHINGTON (WP) — John C. Shepherd, selected by Attorney General Edwin Meese 3d for a Justice Department vacancy, said Friday that he was "giving very serious consideration" to withdrawing. He cited the "tremendous pressure that this whole ordeal has been" on him and his wife.

Mr. Shepherd, a St. Louis lawyer and former president of the American Bar Association, said he had not made a final decision about whether to remain under consideration for the post of deputy attorney general, the second-ranking position in the department. He said he was "still considering what's best for the whole situation."

His membership in an all-white country club and an all-male social club have come under scrutiny since Mr. Meese announced earlier this month that he was his choice to succeed Arnold I. Burns, who resigned in March. Reagan administration sources said Mr. Shepherd had encountered objections from White House officials who think he could face a stiff confirmation battle because of his club memberships and unspecified "other problems."

Police Guarding Irish Jails in Strike

DUBLIN (Reuters) — Five prisoners escaped and minor disturbances broke out at Irish prisons as a strike by guards continued for a second day on Sunday. Police officers and troops were used to guard the 11 prisons involved.

About 1,000 police officers and 300 troops were in charge of the 2,000 convicts after talks broke down in a dispute over the prison guards' overtime pay. Labor Minister Bertie O'Hearn said Sunday that he would confer with Justice Minister Gerry Collins before deciding on an appeal by trade union officials to intervene in the strike.

At the Ensisheim prison in eastern France, meanwhile, prisoners who rioted Saturday surrendered on Sunday. Most of the prison buildings were destroyed and 10 persons were injured in the 16-hour riot. About 250 prisoners seized control of the prison and took two hostages, including a nun, who had been visiting.

Bandits Kill 191 Kenyan Villagers

NAIROBI (AFP) — About 400 cattle-rustling bandits killed 191 villagers in the remote northwestern Turkana district of Kenya and tried to steal thousands of head of livestock, the police said. They were intercepted by security forces before they could drive the animals into Sudan, reports said.

The bandits, some armed with automatic rifles, struck Wednesday in an area about 40 kilometers (25 miles) west of Lokichokio.

Policemen using aircraft trapped the raiders before they could escape into Sudan. In the ensuing battle, about 40 raiders were killed and another two arrested. There were no police casualties.

TRAVEL UPDATE

A new rail link between the Soviet and Chinese systems is under construction by China, China Daily said Sunday. The 224-kilometer (138-mile) line, in Xinjiang Province in northwest China, will shorten the present rail journey between Beijing and Moscow by 2,000 kilometers and should be completed by 1990, the newspaper said.

Smoking will be banned on 80 percent of the airline flights within the United States, beginning Saturday. The ban affects all flights that take two hours or less except travel club and charter trips and flights to foreign destinations. If a long flight is broken into segments, as is common, each leg of less than two hours is covered by the ban.

Seamans of the P&O ferry line voted Sunday to continue their strike, rejecting an offer of an annual wage rise of \$400 (about \$750) on the routes from Dover, England, to Zeebrugge, Belgium, and Boulogne, France. Meanwhile, P&O's main competitor, Sealink, said it would start service April 25 between Liverpool, England, and Dun Laoghaire, Ireland, near Dublin.

Three hundred passengers were evacuated from a Sealink car ferry Sunday after fire broke out in the engine room while the vessel was at the quay in Dun Laoghaire, the police said. One crewman was hospitalized in stable condition.

Rome's two airports were paralyzed Sunday by a strike by air traffic controllers complaining of overwork and demanding an increase in their numbers. All flights were grounded except essential services to Sicily and Sardinia.

Traffic over the main road linking Iraq and Turkey resumed Saturday after a bridge damaged by floods Friday was repaired, the Anatolian News Agency reported.

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

- MONDAY: Zimbabwe.
- TUESDAY: Brunei, Ethiopia, Sierra Leone, Uruguay, Venezuela, Zimbabwe.
- WEDNESDAY: Israel.
- THURSDAY: Iceland, Israel.
- SATURDAY: Turkey.
- SUNDAY: Togo.

Source: Morgan Guaranty Trust Co., Reuters.

Iraq Opens Assault to Retake Faw

By Patrick Tyler
Washington Post Service

KUWAIT — In a major escalation of the Gulf War, Iraq launched a large offensive Sunday aimed at driving Iranian forces off the Faw Peninsula, where Iranian military authorities said their forces were being bombed during the day with chemical weapons. The Iranians said "fierce fighting" was still under way Sunday night.

The Iraqi military command said its pre-dawn attack combined units of the Seventh Army Corps and elite Republican Guard forces, which have been on alert for months to contain any new Iranian assault in the area. The surprise offensive took place on the first day of Ramadan, the Muslim month of fasting.

The Iranian news agency IRNA said that the Iraqi offensive had been "smashed" and driven back. IRNA said that "thousands" of Iraqi soldiers had been killed or wounded.

It was the first time in nearly two years that the Iraqi Army had gone on the offensive. Iraq has expressed growing frustration with efforts by the United Nations Security Council to enforce a cease-fire resolution passed July 20. The resolution was designed to bring the war to an end by threatening to impose an arms embargo against Iran if it did not comply.

The international effort to end the war followed two successive winter campaigns in which Iran first overran Faw in February 1982 and then, in January 1983, advanced to the outskirts of Basra, Iraq's largest southern city.

Iraq's long-term hopes for survival, according to Western analysts, are pegged to pushing for an early conclusion to the conflict. Iraq wants to avoid a drawn-out war of attrition in which Iran's larger population and still-formidable industrial base will force Iraq to maintain a costly garrison state whose frontiers would remain unstable.

De Mita Aide's Killing Is Seen as Strike at Stability

Reuters

ROME — The murder by the Red Brigades of a close aide of Prime Minister Ciriaco De Mita was interpreted Sunday as a strike against stability as Italy appeared to be emerging from a political crisis.

The police said Roberto Ruffilli, 51, a Christian Democratic senator, was shot three times in the back of the head while alone at home in Forlì on Saturday. There were no witnesses.

The Fighting Communist Party, a faction of the Red Brigades, claimed responsibility.

The shooting occurred three days before Mr. De Mita was to

present his new five-party government, formed after a monthlong political crisis, to Parliament for a confidence debate.

"The mere possibility that our country is entering a period of greater political stability appears to be enough to trigger such a barbarous and savage reaction," said Giorgio La Malfa, leader of the Republican Party, one of the coalition partners.

The police said they believed that there was no connection between the shooting and a car bomb on Thursday outside a U.S. servicemen's club in Naples that killed five persons. Junzo Okudaira, a member of the Japanese Red Army

extremist group, is being sought in the Naples attack.

President Francesco Cossiga condemned the killing of Mr. Ruffilli as "an abominable crime" against democracy. Mr. De Mita said the guerrillas had struck at a decisive phase in Italian political life.

Mr. Ruffilli, an intellectual who entered politics in 1983, had a low public profile and no police protection. As a personal friend and close adviser to Mr. De Mita on plans for reforming Italian political institutions, he was an easy target for guerrillas.

Rosario Priore, a leading anti-terrorist investigator, said in a tele-

vision interview Sunday that the shooting was "probably a first attack against the new government" and that more could follow.

The Red Brigades struck frequently in Italy during the late 1970s, killing 17 public figures, including Aldo Moro, a former Christian Democratic prime minister.

The anti-terrorist police estimate that there are 100 active members of the Fighting Communist Party, whose favorite targets are the Christian Democrats, the dominant force in Italian post-World War II politics, and military officials or industrialists.

The last guerrilla killing in Italy was in March 1987, when another Red Brigades offshoot, the Fighting Communist Union, killed General Licio Giorgini of the Air Force in Rome.

FBI Studies U.S. Link

The Federal Bureau of Investigation said Saturday that it was conducting a "rigorous investigation" to determine whether a Japanese man arrested in New Jersey with three bombs had received support from others in the United States. The New York Times reported from Washington.

The FBI said its investigators were also trying to determine whether there was any link between the arrest in New Jersey and the bombing in Naples.

U.S. law-enforcement officials said the FBI had sent at least one explosives expert to Italy to examine evidence in the Naples bombing

Women's Group in Panama Demands Removal of Noriega

The Associated Press

PANAMA CITY — Hundreds of women smashed windows, blocked streets with flaming barricades and clashed with riot policemen in a demonstration to demand the removal of General Manuel Antonio Noriega, the Panamanian military leader.

The police fired tear gas and shotgun pellets Saturday as the demonstrators rallied on the north side of the capital. The women were members of the newly formed Union of Civic Women.

The protesters set up blazing barricades of trash and tires across some streets in the working-class Batavia section of the city and hurled stones at policemen. Windows in some homes and shops were shattered.

General Noriega is under indictment in Florida on charges of drug trafficking and money laundering.

The Reagan administration has imposed economic sanctions on Panama, including freezing Panamanian assets in the United States, in an effort to remove General Noriega. The measures have caused an acute cash shortage that has helped spur anti-Noriega protests.

As the police moved in with water cannon, the women scattered but gathered again in small groups and began pelting the police with stones and trash. The police retaliated by firing tear gas and shotgun pellets into the air.

New U.S. Approach

Earlier, Neil A. Lewis of The New York Times reported from Washington: Reagan administration officials, disappointed over their failure to dislodge General Noriega, say they are now aiming their efforts at weakening his hold on the loyalty of the military.

Most officials generally concede that a five-week campaign of economic sanctions designed to create an intolerable cash flow crisis has not worked, nor is it about to in the near future.

An unusually public and acrimonious dispute between the Pentagon and the State Department over the use of military force has resulted in the idea being shelved for the time being.

Officials are now discussing a campaign of psychological warfare aimed at exploiting what they say is

restiveness in the Panama Defense Forces, General Noriega's principal base of support.

Those taking part in strategy sessions have discussed a variety of tactics, including use of a clandestine radio station and other methods of exhorting the officer corps to turn against General Noriega.

The discussions are taking place against a background of official concern over how U.S. policy has unfolded. In addition to the dispute, in which Pentagon officials said they were being pressed into what they considered unsound military operations, there is chagrin over bold official predictions that General Noriega would be unable to resist the economic pressure.

ELECTION: Upstate N.Y. Vote

(Continued from Page 1)

been extensive television advertising; a visitor to Buffalo saw five Dukakis commercials in two days and none for any other candidate.

The Massachusetts governor also has been helped in some places by circumstances. In Rochester, for example, his emphasis on the benefits of high technology struck a chord; the city has benefited from such companies as Bausch & Lomb Inc., Eastman Kodak Co. and Xerox Corp. In Buffalo, his assertions that he knows how to create jobs have impressed a community that never really recovered from the recession of 1982, let alone more recent setbacks.

Joseph Grangle, who is retiring this autumn after 23 years as Erie County Democratic leader, recently endorsed Mr. Dukakis and he relishes the chance to put his troops to work getting out the vote for his candidate.

In 1948, Paul E. Fitzpatrick, then the Erie County and state Democratic leader, helped preserve the nomination for Harry S. Truman. In 1960, Peter J. Crotty, Mr. Crangle's predecessor, played a key role in John F. Kennedy's campaign. But in all succeeding presidential campaigns until this year, New York has voted too late to have a major impact.

Brian Morris, the western New York coordinator of the Jackson campaign, challenged the polls and other projections, arguing that telephone surveys like those conducted in the state always underestimated Mr. Jackson's vote "because a lot of our folks don't have phones."

He said he expected the upstate region to make a major contribution to a Jackson victory. In the view of New York politicians, the Chicago clergyman's best chance is in the 33d Congressional District, which comprises almost all of Buffalo, the mill town of Lackawanna and such blue-collar suburbs as Depew and Cheektowaga. Black and Hispanic residents make up more than 20 percent of the district. Mr. Jackson may also do well in the 28th District, which contains several important college campuses, including Cornell University at Ithaca.

Democratic leaders are hard pressed to discern any advantage for Mr. Gore, whom several described as the big disappointment of the campaign.



The Associated Press

TROUBLED WATERS — The French trawler Cross of Lorraine steaming into harbor at St. John's, Newfoundland, after the Canadian navy seized it Friday and arrested four French officials and 17 crewmen. Canada charged the boat was fishing illegally in Canadian waters near the French islands of St. Pierre and Miquelon. President François Mitterrand of France said the action was "intolerable" and, after two protests, recalled the French ambassador to Ottawa.

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United Airlines Trims Its Frequent Flier Plan And Others May Follow

By Agis Salpukas
New York Times Service

NEW YORK—United Airlines says it would like to cut back on its frequent flier program. It is the first attempt in recent years by a major airline to hold down the increasing cost of such programs.

Under new rules, which will be phased in starting July 1, United said Friday that passengers would have to fly fewer miles to earn free tickets but that the miles would be much more difficult to accumulate. The carrier said it would end bonus programs under which passengers are credited for extra mileage if they travel to a particular destination being promoted.

For United's plan to succeed, its major competitors must go along, or the airline will find itself at a competitive disadvantage. The initial reaction at other airlines was mixed.

A spokesman for Delta Air Lines, Jim Lundy, said: "We don't plan to make any change in our program. We don't see any need to make changes."

Mike Gunn, senior vice president of marketing at American Airlines, said that American had been studying the implications of rising benefits of frequent flier programs and had been considering what steps to take.

Airline executives and industry analysts have expressed concern that the liberal awards would force airlines to give seats to frequent fliers that would have gone to paying customers.

Another shift at United involves restrictions on which flights passengers can choose when they turn in their mileage credits for tickets. The goal is to force such passengers to travel at times outside of peak travel periods when they fly to such popular destinations as Hawaii.

The aim is to prevent frequent fliers from taking up seats that could be sold to paying customers.

Delta escalated the frequent flier liberalization late last year when it began offering triple mileage credit under certain conditions. American Airlines made the program even more liberal, a step that was matched by most of the major carriers.

Since then, senior marketing executives of American, United and other airlines have said limits were needed on the program.

David G. Sylvester, an airline analyst with Kidder, Peabody & Co., said he thought United's changes "will be completely matched by the rest of the industry," adding, "I think the industry will tighten it up even further."

Under United's plan, a passenger will qualify for a free coach ticket after 20,000 miles (about 32,400 kilometers), compared with the current floor of 35,000 miles.

However, United plans to eliminate many bonuses, including the common practice of giving credit for double mileage when full coach fare is paid. The minimum number of miles a passenger can earn on any trip will drop to 500 miles, from 750.

United said more than 50 percent of its seats systemwide would be open to fliers using mileage credits. But during holiday periods, including Thanksgiving, Christmas and New Year's, there will be restrictions on availability.

SDI Laser Effort Is Off Target

Program in New Mexico Desert Lags Behind Schedule

By William J. Broad
New York Times Service

WHITE SANDS MISSILE RANGE, New Mexico—A legacy of President Ronald Reagan's program for a defense against missiles lies here in the New Mexican desert amid a seemingly endless expanse of sand and sagebrush, yucca and mesquite.

It is the beginnings of a giant laser, priced at up to \$4 billion, whose powerful beams of concentrated light are to flash into the pale New Mexican sky.

To date, however, the main achievements have been the construction of an access road, water main and power line.

The futuristic laser itself is nowhere to be seen. Military officials say the situation will remain that way for a half-dozen years or so, and possibly longer if an unfriendly candidate wins the White House.

"It's sad," said Colonel James F. McNulty of the army, head of the project, as he gazed across the laser site toward distant mountains. "We planned to be further along by now."

The project is nearly two years behind schedule and about \$300 million short of its expected funding, army officials say.

The laser venture typifies the fragile state of affairs five years after Mr. Reagan's speech announcing a plan for a space-based missile defense, the Strategic Defense Initiative.

While laboratory research has advanced on many fronts, its concrete application in big projects has been slowed by congressional cuts in budget requests, by the grounding of the national space shuttle fleet, by disputes among the military services and by the zig-zag of the program in the search for ways to achieve the president's goal of rendering enemy missiles "impotent and obsolete."

While critics delight in the disaster, saying anti-missile technology is inherently feeble and doomed to failure, military officials express frustration over their inability to advance vigorously on what they view as an attainable goal.

"The research is going great guns," said Lieutenant General John F. Wall, commander of the army anti-missile programs. "But for the projects we're talking megabucks. When you need a chunk of money that big, something often has to give."

The New Mexico laser venture, which is run by the army, is the largest and most costly of the hundreds of anti-missile projects under way across the United States.

It centers on the creation of a laser that works by jostling electrons with magnetic fields to tease them into producing powerful beams of light.

When finished, this free-electron laser is to be three to four miles long (4.8 to 6.5 kilometers), its main apparatus buried in concrete tunnels beneath the desert. The aim is to test whether its beam can cut through the atmosphere and bounce off orbiting mirrors. In war, such a beam would be aimed at incoming missiles to damage or destroy them.

The project is key to the military's long-term aspirations. Most of the anti-missile weapons now under development have been around for decades, such as small projectiles meant to smash into targets. But free-electron lasers barely existed when Mr. Reagan took office.

They were singled out for quick development, but their perfection as giant weapons is still seen as a daunting task.

The attraction is that free-electron lasers are viewed as one of a few technologies that in theory have enough power to try to approach the original anti-missile goal. In contrast, the older, more mature technologies now being readied for possible deployment in the 1990s would stop only a fraction of warheads aimed at the United States.

"This offers the biggest payoff," said Colonel McNulty, the project director.

At the laser site, about 25 miles east of Organ near the foothills of the Jarilla Mountains, construction has clearly been slower than expected, all kinds of impediments having arisen. One sees numerous trenches, dug by archaeologists who wanted to make sure no prehistoric artifacts were in the area.

The project was publicly announced in July 1986 and ground was broken early last year. Soon after, the endeavor fell victim to budget cuts. Today, construction work has slowed, the number of workers running from 10 to 30 on a given day. In addition, there are about 60 government workers based at White Sands headquarters to oversee laser design and construction, and about 85 contractors.

Because of the slowdown, the first phase of the project is not expected to be finished until around 1994, at a cost of \$1 billion to \$2 billion.

For experiments, the site is to be staffed by up to 500 scientists and technicians. Just cooling the giant laser will require an estimated 450 million gallons (1.7 billion liters) of water a year, a considerable amount in such an arid region.

The laser beam will be adjusted by a mirror with 2,000 moving parts that researchers hope will create a customized light wave capable of piercing atmospheric turbulence without distortion.

If successful, the project might get the go-ahead to move into a second phase that could bring its total cost up to \$4 billion, the aim being to create an even more powerful laser beam.



ROUGH LANDING—Nineteen persons were injured when a Horizon Air commuter plane crash-landed at Seattle-Tacoma International Airport shortly after takeoff. The plane, with its right engine ablaze, narrowly missed the control tower and a crowded airport bar before it skidded across the runway and careened into an empty terminal. There were 40 people aboard.

Blacks Find Campus Racism Growing

By Isabel Wilkerson
New York Times Service

ANN ARBOR, Michigan—On the campuses of predominantly white U.S. universities, where racial unrest has risen dramatically in recent years, black students say they feel increasingly like outsiders, isolated and unwelcome.

Recent incidents of harassment and violence at the University of Michigan and other campuses have called attention to deep racial divisions and a generally hostile environment for black students such as Courtney Thompson, a third-year student at Michigan.

"White students say, 'Michigan is great; it's awesome,'" Mr. Thompson said. "But I just want to get my education and get out of here. This is their place, not mine."

In May the University of Michigan is to put into effect a new anti-discrimination code that it hopes will combat incidents like the distribution to February of a flier saying blacks "don't belong in classrooms, they belong hanging from trees."

For the first time, the university will impose penalties, ranging up to expulsion, on students who threaten other students because of their race.

Several days spent with black students and faculty members at the University of Michigan showed that racism is a constant in their lives and takes a psychic and emotional toll.

Racism occurs out in the open. On mile-long walks to class, black students are routinely the target of racial epithets shouted across a busy intersection.

There are subtler forms as well. In Mr. Thompson's classes, when the topic turns to blacks, everyone turns to look at him.

And in a climate of racial tension, almost anything can be taken as racist, and black students' feelings of isolation and suspicion multiply.

"One of the tragedies of being a minority student is you never know why people are responding to you in a given way," said Dr. Howard Ehrlich, a psychologist and director of the National Institute Against Prejudice and Violence, a research group in Baltimore.

Some black students have withdrawn from campus activities. Others have become active in protest groups. Still others have become so injured to racism that they talk about it as routine.

Mr. Thompson says he is reported experiencing some form of racial discrimination. Because none of these undergraduates were born in the days of patent segregation, some are confronting overt racism for the first time.

"To some black students, racism at the University of Michigan and elsewhere in recent years. In this environment, many black students become hurt and ambivalent, reluctant to acknowledge signs of rejection from a school they want so much to be a part of. Others become so hardened by daily confrontations that they shun off the incidents, at least on the surface.

Studies confirm the high levels of social estrangement among black students. In his recent study of black undergraduates, Dr. Allen found that only 12 percent of black students, as against a majority of whites, said they felt they were an important part of campus life.

That finding has implications for the success or failure of black students in general. Studies have shown that academic performance is lower among black students with strong feelings of alienation and dissatisfaction with campus race relations.

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AMERICAN TOPICS

Fire in Cigarette Ads, But Not Much Smoke

Cigarettes that show fire but no smoke appear in countless advertisements. They jut from the jaw of the Marlboro man or from the fingers of those handsome couples who gather for Sunday brunch and Benson & Hedges.

Michael Pertschuk, a tobacco opponent and former chairman of the Federal Trade Commission, which monitors advertising, calls it "deceptive advertising."

Professor Richard Pollay, curator of the history of advertising archives at the University of British Columbia, told Morton Mintz of The Washington Post, "Motivation research of the 1950s indicated that smokers had ambivalent feelings." People recognized "some 'negative aspects' of smoking, such as smells, burning clothes, some minor health hazards."

A spokesman for Philip Morris, maker of Marlboro and Benson & Hedges, noted that many recent ads continue to show smoke. The decision to show smoke or to airbrush it out, he said, "often turns on whether the scene is indoors or outdoors, or on the lightness or darkness of the setting."

A spokeswoman for Lorillard, maker of Kent and Newport, said: "We have no policy, nor have we ever had, to show the smoke coming from the tip of a cigarette. We attempt to make our ads as real as possible, and in a normal setting, where action is involved in photography, you don't see the smoke."

She recalled that the early 1980s ads for Kent Golden Lights, saying "You Really Know You're Smoking," showed smoke, while many ads for Newports don't even show cigarettes.

Short Takes

Perrets are the latest pet fad, but the Journal of the American Medical Association warns that no effective rabies vaccine for them is yet available. An anti-rabies society spokeswoman said: "We do not recommend keeping them as pets. They are not trainable animals. They do

Notes About People

President Ronald Reagan reads the newspapers at breakfast, he told the American Society of Newspaper Editors, and he turns first to the comics. "A lifetime habit," he explained. "Then my next turn is to the editorial pages." He added that he reads more than one paper.

Mr. Reagan had been asked about a new book by his former spokesman, Larry Speakes, who wrote that the president rarely reads newspapers, contenting himself with news summaries prepared by his staff.

Treasury Secretary James A. Baker 3d is expected to resign eventually to work full time for the presidential campaign of George Bush, his friend of 30 years, tennis partner and fellow Texan. But this is unlikely before late summer. "Mr. Bush, indeed, could be happy with Mr. Baker's staying put in the Treasury and doing what he can to keep the economy — and with it Mr. Bush's chances of being elected president — from unraveling," The New York Times commented.

Arthur Higbee

Kenyan Villagers

Kenyan villagers are protesting against the government's plan to build a dam on the Tana River. The dam would flood a large area of land, displacing thousands of people. Villagers are demanding compensation and a halt to the project.

UPDATE

Update on various news items from the previous page, including reports on international relations and local events.

UPDATE

Further updates on the Kenyan dam project and other news items.

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INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

A Bumpy Chinese Road

China's just concluded National People's Congress approved what the Politburo asked it to. No surprise there. But this time there were open debates and more press coverage than usual.

The congress approved parts of a solution on which all can agree. It gave legal protection to private enterprise, already the fastest growing sector of the economy.

Canute in Washington

No sooner had the seven governments pledged to keep exchange rates stable than the American trade figures appeared on Thursday — and the dollar lurched downward again.

hope of eliminating that dependence on foreign money is fading fast. As the deficit in traded goods slowly comes down, it will increasingly be offset by the financial burden of servicing those foreign debts.

A Message for Shamir

No national security question rings louder in the American presidential campaign than the Arab-Israeli conflict. The Middle East may well be the most flammable place in the world.

national conference. It would have no powers beyond launching direct talks between Israel and a Jordanian-Palestinian delegation. The immediate purpose of these direct talks would be to establish Palestinian autonomy in the West Bank and Gaza Strip for about two years.

Other Comment

Religious, Armed and Dug In

Israel over the past few years has been seized with a wave of religious fervor which has not yet abated. Immigration has been reduced to a trickle, but the few Jews from Russia and elsewhere who settle in Israel are nearly all religious.

little affection for the Arabs (and even less for Israeli journalists, whom they regard as a pack of traitors). They are all armed, and in the event of a peace agreement the problems which the army now has with the Arabs would be fun and games compared to the problems it would have with the Jews.



At a time of great national boredom, the people search for reassurance . . .

Forty Years Later, a Crucial Choice for Israelis

By Anthony Lewis

BOSTON — Israel became a state on May 14, 1948. A month later its government faced a fateful issue. Irgun Zvai Leumi, the right-wing terrorist group that had operated during British rule, tried to bring thousands of guns in on a chartered ship, the Altalena.

in the killing of an 11-year-old Palestinian girl by a settler. The group encountered young Palestinians, who threw stones. One came forward — to urge the Israelis to leave quietly, the Palestinians claimed afterward. An Israeli guard shot him dead. Villagers rushed out.

A possibility now being discussed openly is 'transfer of population.'

surrounded the Israeli group and took them into Beita. In the village, two more people were killed: another young Palestinian man and a 15-year-old Israeli girl, Tirza Porat. First reports were that Miss Porat had been killed by a stone. But then an army inquiry found that a bullet, apparently from the gun of one of the guards, had struck her in the head.

because of rescue by military force but because some villagers did not allow them to be harmed. Despite General Shimon's words, and despite the finding that Miss Porat had not in fact been killed by a stone, Israeli authorities imposed collective punishments on Beita. Fourteen houses were blown up, groves of almond trees pulled out, seven acres of olive trees bulldozed.

pen. A further possibility, openly discussed in Israel now, is what is politely called "transfer of population." That is, expelling the mass of Palestinians from the occupied territories. Henry Siegman, executive director of the American Jewish Congress, looked recently at these shadows on Israel's future. He spoke before the incident in Beita. Democratic and humane values, he said, "are likely to be eroded even further" if the occupation "persists indefinitely."

Decline for America? It Depends on Americans

By Paul Kennedy

NEW HAVEN, Connecticut — One of the mixed blessings of having written a best seller, "The Rise and Fall of the Great Powers," is the ensuing array of interpretations and misinterpretations of what it is saying.

ple, microchips) needed for its own industry and its defense forces; if its currency has less and less value on international exchanges; if it devotes too much of its resources to consumption and defense spending, at the cost of long-term investment; if it produces fewer and fewer engineers and more and more lawyers and dentists and stock jobbers — then sooner or later all that is going to have serious effects on the wealth and strength of the nation.

ber of native American engineers, and massively to boost the scientific and mathematical skills of 17-year-olds (although that again would cost money). It could increase the school year from the present 185 days to something closer to the Japanese standard: about 240 days.

For France, a Made-Over Fifth Republic Beckons

By William Pfaff

PARIS — The final week of France's presidential eliminations has arrived. By Sunday night the French will know the two men from whom, on May 8, they will make their final choice for president. They do not expect to be surprised.

chers compares. He writes that "a program is the affair of political parties, not of a president of the republic, or of someone who wishes to become president." And the present offers, in place of a program, a series of elegantly expressed reflections on the grand principles which should guide the nation.

of Charles de Gaulle's institutions. Mr. Mitterrand was an enemy of the Fifth Republic at the start, describing it, in a notorious phrase, as "a permanent coup d'état." As president, he seemed a convert to its principles. It may prove that he was converted only to its convenient practices of presidential power, and that in the end he will have the last word over his old enemy, leaving behind, in fact if not in name, a Sixth Republic — or the Fourth and a Half.

1888: Matthew Arnold NEW YORK — News of Matthew Arnold's death (of heart failure on April 15 at Liverpool), coming so closely upon the discussion which the publication of his latest views of America has aroused in all parts of the country, has created a profound impression. In literary circles where he was personally known, the intelligence has been received with grief. The evening papers give long sketches of his life, with appreciative editorial articles. He was 65 years old.

1913: Tariff Opposed

NEW YORK — The Democratic caucus yesterday (April 16) upheld President Woodrow Wilson's decision for free raw wool, and the motion for a 15 percent ad valorem duty was lost by a vote of 190 to 42.

1938: 40 Arabs Killed

JERUSALEM — More than two score were killed in a battle starting yesterday afternoon (April 16) and lasting through the night between a band of armed Arab rebels and British troops near Bala-Anepta. Reconnaissance planes flew over the battlefield from the military base at Ramat, while powerful searchlights lit up the scene. It was estimated this morning that about 40 terrorists had been killed, including several rebel ringleaders. Several civilians, who came to the aid of the rebels, are also reported to have been killed.

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مركزنا التحليل

QUAGMIRE: Moves on Afghanistan Came a Month After Gorbachev Took Power

(Continued from Page 1)
member 1979 as the faction-ridden Communist regime faltered.

Mr. Legvold was told of the decision makers, nearly all in their 70s, that "the old ones left in their bones" that this should be done.

The Soviet Army landed 85,000 troops in a matter of weeks. By 1982 there were 100,000; and finally 115,000, far short of the 400,000 in 500,000 troops U.S. analysts believed the minimum needed to subdue the fierce, dedicated, fundamentalist enemy.

Why the Soviets limited their troop levels while exercising no restraint on the bombings, mining, booby-trappings and brutal destruction of villages is a matter of debate.

A U.S. official said he believes the Kremlin came to see the war as a mistake whose costs could be sustained, but that tripling or quadrupling the commitment would have made it a mistake of unsustainable proportions.

By June 1982, two and a half years of war had brought only an ever-higher toll of death, injury and displacement. Pakistan and Afghanistan, with approval of Washington and Moscow, began indirect negotiations under the aegis of a determined Ecuadorian diplomat from the United Nations, Diego Cordovez, whose energy and irrepressible optimism would never flag.

When Mr. Gorbachev became general secretary of the Soviet Communist Party in March 1985, Afghanistan meant stalemate. Soviet troops made periodic sweeps through rebel areas, then pulled back to heavily defended base areas.

U.S. assistance to the Afghan resistance, with strong backing from Republicans and Democrats in Congress, had skyrocketed: \$30 million in 1983, \$120 million in 1984, \$250 million in 1985. Ultimately, it topped \$600 million yearly, matched by large sums from Saudi Arabia.

Unlike his three immediate predecessors, Mr. Gorbachev had no public record of commitment to the war. He knew that to rejuvenate the Soviet Union's declining economic and political fortunes, he needed eased relations with nations on the Soviet periphery and with the United States, a lessening of international tensions generally and much greater freedom of expression at

home. All these conflicted with continuation of the Afghan war.

Mr. Gorbachev said little about Afghanistan at first. But just two months ago, in a speech to the Central Committee, he said that his policy shift began in April 1985, only a month after he took power.

After meeting with Mr. Gorbachev privately as he took power in Moscow, the Pakistani president, General Mohammed Zia ul-Haq, said the Soviet leader warned him sternly and personally about Pakistan's support of the resistance.

In an effort to intimidate the Pakistanis into shutting off the supply lines and closing the staging areas for the mujahidin, air and ground violations of the Pakistan-Afghan border by Afghan forces began to increase sharply, a trend that was even more pronounced in the next several years.

There were credible reports from Kabul and elsewhere that General Zaitsev had one year — in another year two years — to start winning in Afghanistan. Such a military effort, said a State Department Afghan policy-maker, had the effect of postponing the need for top-level political decisions.

Despite more aggressive tactics, better equipment, and General Zaitsev's personal leadership in combat, the military stalemate continued. And Mr. Gorbachev had begun moving cautiously toward a diplomatic way out, if needed.

After this time Gorbachev came in, things began to change," Mr. Cordovez, the UN mediator, said later. Only two months after Mr. Gorbachev took over, the Soviets "came up with a number of ideas on how the negotiations should move forward," he said.

When Babrak Karmal resisted the new Soviet peace-making proposals, Moscow removed the man they had installed during the 1979 invasion and on May 4 replaced him with General Najib.

Meanwhile, Mr. Reagan in April 1986 ordered the Central Intelligence Agency to provide the resistance with the high-technology Stinger anti-aircraft missiles.

Suddenly Soviet forces that already were stretched thin protecting themselves and their supply lines no longer had mastery of the air in rapidly expanding areas where the Stinger missile was in use.

The first indications of a high-level political shift came in Moscow in November to a visiting delegation of Americans from the private Dartmouth U.S.-Soviet discussion group.

Several of the visiting Americans were invited to appear on Soviet television, with suggestions that they be frank about Afghanistan. Afterward, the Americans were commended by their Soviet hosts, one of whom confided, "The Soviet people have to start learning that we have to get out of Afghanistan, and we can't go on television to say it."

Just after the new year in 1987, the Soviet foreign minister, Eduard A. Shevardnadze, and Anatoli F. Dobrynin, the Kremlin foreign policy adviser, flew to Kabul on a surprise visit. Mr. Shevardnadze said publicly there that a political settlement in Afghanistan was "feasible" and "close."

Two days after seeing General Najib, Mr. Gorbachev told the Indonesian newspaper, Merdeka, that, "In principle, Soviet troop withdrawal from Afghanistan has been decided upon."

When the Soviet troop withdrawal timetable: 48 months from start to finish. It was far too long to tempt Pakistan or the United States. But it was a starting point for bargaining.

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Meanwhile, Mr. Reagan in April 1986 ordered the Central Intelligence Agency to provide the resistance with the high-technology Stinger anti-aircraft missiles.

Suddenly Soviet forces that already were stretched thin protecting themselves and their supply lines no longer had mastery of the air in rapidly expanding areas where the Stinger missile was in use.

Several of the visiting Americans were invited to appear on Soviet television, with suggestions that they be frank about Afghanistan. Afterward, the Americans were commended by their Soviet hosts, one of whom confided, "The Soviet people have to start learning that we have to get out of Afghanistan, and we can't go on television to say it."

Two days after seeing General Najib, Mr. Gorbachev told the Indonesian newspaper, Merdeka, that, "In principle, Soviet troop withdrawal from Afghanistan has been decided upon."

When the Soviet troop withdrawal timetable: 48 months from start to finish. It was far too long to tempt Pakistan or the United States. But it was a starting point for bargaining.

Major General Najib, left, and Mikhail S. Gorbachev during their meeting April 7 in Tashkent.



Major General Najib, left, and Mikhail S. Gorbachev during their meeting April 7 in Tashkent.

contact told him, "This is very important for you."

It is clear now that the decision had been made by July 20, when General Najib was summoned to the Kremlin. According to an account recently provided to a visiting diplomat by a leading aide to Mr. Gorbachev, General Najib was unconvinced that Soviet troops were actually to be withdrawn because of doubts expressed by officials in the Soviet hierarchy who either may have been opposed or not well informed.

Mr. Gorbachev, according to his aide, found it necessary to look General Najib in the eye and tell him, "No matter what else you may have heard, I hope you are ready in 12 months because we will be leaving whether you are or not."

Remarks that were made in May and June by a Soviet official to Mr. Cordovez, the UN mediator, are suggestive of the nature of the opposition and of the timing of the debate.

Some of the U.S. government predicted Moscow would never accept this. But others, who proved to be right, said Mr. Gorbachev was determined to get out and finally would accept almost any deal that furnished him international cover.

The last diplomatic event was Mr. Gorbachev's meeting with General Najib in Tashkent on April 7 and Soviet acceptance of "symmetry" in a letter to Washington the next day.

After the way was cleared by this understanding, Mr. Shultz, Mr. Shevardnadze and Pakistani and Afghan representatives signed the accords last Thursday in a green-and-gold chamber in Geneva.

Some of the U.S. government predicted Moscow would never accept this. But others, who proved to be right, said Mr. Gorbachev was determined to get out and finally would accept almost any deal that furnished him international cover.

U.S. Sees Sabotage at Pakistan Arms Depot

By Michael R. Gordon
WASHINGTON — U.S. Defense Department officials say they believe the explosion a week ago at a Pakistani ammunition depot was the work of agents of the pro-Soviet regime in Afghanistan.

The United States still has no proof of sabotage, according to the officials, and some experts at the Central Intelligence Agency are said to believe it is possible the explosion was an accident.

Our opinion is that it was sabotage," said the Defense Department official.

Amid chorused shouts of "death to Gorbachev," "death to America" and "Allah is great," about 10,000 Afghan refugees who described themselves as fighters of a holy war rallied Saturday in Peshawar, Pakistan, to proclaim their opposition to the agreement signed in Geneva last week.

The accord provides for the withdrawal of the Soviet army.

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Israel Is Blamed in Killing of No. 2 PLO Leader

Compiled by Our Staff From Dispatches
TUNIS — Yasser Arafat, leader of the Palestine Liberation Organization, returned here Sunday after the killing of the deputy PLO commander to consult his aides on what is almost universally regarded as an assassination by Israeli agents.

Khalil al-Wazir, known as Abu Jihad, or "father of struggle," was shot to death early Saturday at his home in a suburb of Tunis. The Israeli government has not denied accusations by the PLO and the Arab League that Israel was responsible.

In Jerusalem, a spokesman for Prime Minister Yitzhak Shamir

would not comment Sunday on reports that Mr. Shamir and two other high-level Israeli officials approved the killing.

The U.S. television network NBC, quoting sources it did not identify, reported Saturday night that the assassination was a joint operation of the Israeli intelligence service, Mossad, and Israeli naval and army units.

The report said the attack was approved by Mr. Shamir. Foreign Minister Shimon Peres and Defense Minister Yitzhak Rabin after Palestinian guerrillas hijacked a bus and killed three Israelis last month in the Negev Desert of southern Israel.

Mr. Arafat had been on a tour of Gulf states and was in Bahrain when the killing of Mr. Wazir took place. (Reuters, AP)

Similarity to Beirut Raid
 Alan Cowell of The New York Times reported from Cairo:

Mr. Wazir, 52, was gunned down in front of his wife and 14-year-old daughter, his aides said. The operation appeared similar to a raid in Beirut on April 9, 1973, in which Israeli commandos shot three Palestinian leaders to death.

In the past, however, some prominent Palestinian figures have been killed by other Arabs, and the possibility that the attack was carried out by rivals of the PLO leader could not be completely ruled out.

Palestinian officials said Mr. Wazir, regarded as the top PLO figure after Mr. Arafat, and as his

possible successor, died clutching a pistol while his attackers, one of them said to be a woman, shot him 70 to 100 times at about 1:30 A.M. in Sidi-Bou-Zid, an elegant suburb of Tunis.

The killing was the most spectacular and potentially most damaging involving the PLO leadership for many years. It provoked angry condemnation from Arab nations, including Egypt and Jordan, and was followed by a surge in protests in Israel's occupied territories.

Mr. Wazir was believed by other Palestinians to have coordinated and led efforts outside the occupied territories to sustain the uprising there, which began Dec. 9. In February, three of his lieutenants died in a car-bombing in Cyprus, which the PLO also blamed on the Israeli campaign to quash the uprising.

The Israeli ambassador to Cyprus, Ahron Lopez, denied at the time that Israel was responsible for that attack. He suggested it had been committed by a rival Arab group.

The rivalries that have plagued the Palestinian nationalist movement, however, appear to have been largely buried during the four months of protest in the occupied Gaza Strip and West Bank. The underground committees coordinating the uprising include representatives of the various factions.

As military chief of el-Fatah, the largest PLO group, Mr. Wazir was responsible for several operations in Israel, including the hijacking in 1978 of a commuter bus on the coastal highway, in which 35 Israelis were killed.

In October 1985, Israeli planes



Khalil al-Wazir

Abu Jihad: A Lifetime Of Fervent Dedication To Palestinian Cause

By Elaine Sciolino
 New York Times Service
WASHINGTON — "We will not be squeezed by time," Khalil al-Wazir was fond of saying when people asked him why the Palestine Liberation Organization was unwilling to make peace with Israel.

Indeed, the 52-year-old PLO military chief, who was gunned down in his home Saturday morning, was not if not patient. The son of a grocer who fled with his family to Gaza after Israel was created, Mr. Wazir began his political activities in the 1950s, when, as the

leader of his high school student union, he organized a guerrilla group to challenge Egypt's rule over the Gaza Strip.

Better known by the nom de guerre Abu Jihad, or "father of struggle," Mr. Wazir was second only to Yasser Arafat in el-Fatah, the organization they founded in the 1950s and which remains the largest branch of the PLO.

Since violent demonstrations broke out in the Israeli-occupied territories last December, Mr. Wazir had been the PLO official responsible for coordinating the uprising. Some PLO officials believe it was his role in the uprising that led to his death.

Mr. Wazir urged the Palestinian civilians not to use guns in their fight against Israeli soldiers, and he often expressed pride that they were fighting the Israelis with stones, not bullets.

Mr. Wazir, who was deeply loyal to Mr. Arafat, earned a reputation as a moderating and conciliatory force in an organization that has often been fraught with infighting.

Mr. Wazir commanded the allegiance of "dissent" officers who split from el-Fatah after feuding with Mr. Arafat, for example. He built his own base of support, and at the meeting last spring of the Palestine National Council, the PLO's legislative arm, he was instrumental in creating the final resolution that said that the PLO would be willing to have some contact with non-communist Jews who favored Palestinian rights.

Mr. Wazir's death leaves a serious political vacuum in the PLO leadership. There is no one in the organization who has the same familiarity with the occupied territories or the same ability to avoid ideological feuds within the PLO.

As the PLO representative on a joint Jordanian-Palestinian committee for development of the territories, for example, he had an intimate knowledge of the politics and social dynamics of the territories and wielded considerable power in controlling the PLO funds flowing into them. In addition, he prided himself on being a "pragmatist" following every twist in Israeli politics.

"He was someone whose ideology was Palestinian nationalism," said Helena Cobban, a guest scholar at the Brookings Institution and author of a recent book on the PLO. "He was also the heir apparent, but with considerable powers of his own."

Mr. Wazir was consumed by a belief that violent struggle was necessary to regain the land lost to Israel for the Palestinian people.

Over the years he served as a military strategist, journalist, troubleshooter, arms purchaser, fundraiser, and negotiator for the Palestinian cause.

In 1954, when Mr. Wazir was 19, he was arrested by Egyptian authorities for mine-laying activities in Gaza and imprisoned for several weeks. A year later, he conducted his first major guerrilla operation, blowing up water tanks near Beit Hanoun.

It was as a law student at Alexandria University during the 1956 Middle East war that Mr. Wazir met two other students, Mr. Arafat and Saleh Khalifeh. Together, they founded el-Fatah.

After dropping out of law school, Mr. Wazir married his cousin, Intissar, who shared his commitment to Palestinian nationalism and had served in his place in his absence. In addition to his wife, Mr. Wazir is survived by three sons and two daughters.

In the early 1960s, Mr. Wazir, Mr. Arafat, and Mr. Saleh reunited in Kuwait where they began to recruit Palestinians for their movement. After persuading the Algerians to train about 100 Palestinian guerrillas, Mr. Wazir and Mr. Arafat traveled to China in search of support.

Returning to the Middle East, Mr. Wazir set up military headquarters in Damascus, and from there on focused on guerrilla operations.

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ISRAEL: Enclaves Are Sealed Off

(Continued from Page 1)

nalists were ordered to leave the areas.

But residents and other witnesses said the streets were largely quiet in most areas. A general strike kept shops closed and workers away from their jobs. Black mourning flags and PLO banners were visible all across the territories as Palestinians entered a second day of mourning for Mr. Wazir.

Two Palestinians were wounded in a clash with soldiers at the Nur Shams refugee camp.

But while Palestinians mourned, many Israelis celebrated the operation as evidence of Israel's willingness and ability to strike back at alleged terrorist leaders.

Ariel Marari, a Tel Aviv University terrorism expert, who said earlier that he believed Mr. Wazir had been killed because of an internal power struggle, has retracted that statement. After reading about the details of the assassination, Mr. Marari said "it looks very much like some of the other Israeli operations, such as the 1973 raid."

Independent Ghetto Rally In Warsaw

By Jackson Diehl
 Washington Post Service
WARSAW — Thousands of people carrying candles and the banners of opposition political movements marched through the former Jewish ghetto here Sunday in an independent commemoration of the 1943 uprising against Nazi forces.

The march by more than 5,000 Jews and Poles, including leaders of the banned Solidarity trade union, was one of the largest independent demonstrations to take place without police interference in Warsaw in recent years.

It followed the dedication of a privately backed monument in a Jewish cemetery to two leaders of the former Jewish workers league who were executed in Moscow for criticizing the Soviet invasion of eastern Poland in 1939.

The two events, organized by a committee of intellectuals and political activists, occurred as the Communist authorities sought to focus attention on a one-week program of official events marking the 45th anniversary of the uprising.

At the Polish parliament, 97 Poles who helped save Jews from the Holocaust were awarded medals from the Ministry and Heroes' Remembrance Authority in Jerusalem. At the same time, a member of the ruling Communist Party Politburo, Mieczyslaw Rakowski, met a group of Israeli government officials and dignitaries, including Deputy Prime Minister Yitzhak Navon.

According to official accounts, more than 5,000 Jews from 36 countries have arrived in Poland for the anniversary celebrations, which are to continue through Tuesday. A "Route of Remembrance" in the former ghetto, featuring plaques and a major monument, is to be dedicated Monday.

The independent and nominally illegal events Sunday, which reflected the long-standing rift between the government of General Wojciech Jaruzelski and a well-organized opposition, were not attended by Israeli officials or by visiting leaders of the World Jewish Congress, who apparently wished to avoid offending Communist authorities.

Both events, however, were attended by an unusual mixture of opposition intellectuals, common citizens moved by the history of the ghetto and Jews visiting privately from abroad. The last group included several survivors of the ghetto.

Gathered at an official monument to the Warsaw ghetto, the crowd heard a letter from Lech Walesa, the leader of Solidarity, paying homage to the 44-day struggle by poorly armed Jewish combatants against Nazi forces and expressing regret about incidents of Polish anti-Semitism.

The acknowledgment and condemnation of past Polish anti-Semitism varied from the official Communist line, which stresses only Polish help for the Jews during the war and the "shared martyrdom" of the two peoples at the hands of the Nazis.

SOVIET: Reform Plan Hobbling

(Continued from Page 1)

severe problems, has acknowledged some setbacks and appealed to the Soviet people to help him.

"The command-and-administer system and those worshipping it are not surprising ground without battle," he told party officials recently in Central Asia. "Not infrequently, good decisions, even those made now, are carried out only partly."

He added, "There are a great deal of people who view their particular factory, village, collective farm, district or city as their own fiefdom."

The partial breakdown of his program increases the importance of the party conference scheduled to begin June 27, particularly the process of selecting delegates for the meeting. The gathering is expected to review many of Mr. Gorbachev's programs and may elect new members of the Central Committee, the party's top policy-making body.

Several recent newspaper articles have indicated that a major struggle is taking shape over the selection of the delegates.

Because many of the delegates will represent regional and local party organizations, the areas where inertia and resistance seem most embedded, Soviet officials say Mr. Gorbachev and his allies must control the selection process to pick members whose interests are not threatened by change.

Gavril Popov, an economist who has supported Mr. Gorbachev but has not hesitated to question the efficacy of his programs, suggested this month in the newspaper *Sovietisticheskaya Industriya* that two-thirds of the delegates should be rank-and-file party members, one-third party officeholders.

The article was viewed as a reflection of Mr. Gorbachev's thinking.

The problems besetting Mr. Gorbachev's domestic program were outlined recently in a blunt article by another economist, Nikolai Shmeliov, that has stirred intense discussion among Russians and Western analysts.

In the article, which appeared in the April issue of the journal *Novy Mir*, Mr. Shmeliov cited several "negative phenomena" that he said were becoming more acute.

"One cannot fail to see that the hidden, and sometimes open, resistance to perestroika from many regional and district party, government and economic organs is growing," he said.

Perestroika, which means restructuring or reconstruction, is the word most often used in the Soviet Union for Mr. Gorbachev's program to revive the stagnant economy and reduce rigidity in the Soviet system.

While central economic ministries try they support perestroika, Mr. Shmeliov said, many actually are working to undermine it by frustrating the intent and letter of new policies.

Citing a problem that Western economists also have mentioned, Mr. Shmeliov said that government agencies, in the name of introducing a new system of economic management, have simply substituted one form of central control for another.

The problem centers on a new system of local control called *khozraschet* that was approved by the Central Committee in June and is

SOVIET: Reform Plan Hobbling

one of the core elements of Mr. Gorbachev's domestic program.

The system, which spread on Jan. 1 to companies producing 60 percent of Soviet industrial goods, is intended to reduce government management of factories and other enterprises.

But instead of limiting their role, ministries have used state orders, part of the new system, as a substitute for the annual production targets that formerly controlled factory operations.

"State orders actually exceed previous planned tasks," Mr. Shmeliov said.

Figures showing increased production are misleading, he added, because factories are producing goods that do one want.

"There's a widely held opinion that lately the situation in the food markets and stores not only hasn't improved but has actually deteriorated," he said.

Programs to encourage greater individual enterprise by farmers, another key part of Mr. Gorbachev's program, have been stymied by local government agencies, according to Mr. Shmeliov.

Summing up his analysis, the economist said, "It is quite possible that if in the next two or three years there are no substantial results that can be sensed by everyone, the fate of perestroika may be threatened."

To buy time for long-term change, Mr. Gorbachev has pressed the party and government to take urgent steps to increase the availability of food, consumer goods and housing and to improve the quality of medical care. These stopgap measures have not as yet produced visible results.

Mr. Gorbachev and many of his countrymen, frustrated by the glacial pace of change, appear to have concluded that a fundamental economic restructuring, including decentralization of economic management, has been undermined by the party itself.

"We cannot embark on the most effective variant in the economy without conducting a perestroika in politics," Mr. Popov said in his article.

The heart of the problem, according to several of Mr. Gorbachev's aides, is regional, city and district party organizations and the system of power, patronage and privilege that makes them inherently resistant to change.

The nature of the Soviet system — with almost all power concentrated in the party — has left many of Mr. Gorbachev's economic and social programs hostage to local Communist officials who not only lack an incentive to help him but have every reason to oppose him.

Mr. Gorbachev's policies directly threaten the prerogatives of party officials — everything from cars, drivers and special stores and medical clinics to the power to dispense jobs and dictate policy to schools, factories, collective farms and newspapers.

On June 1, for example, 400,000 party and government officials around the country will lose their office car and driver under a Gorbachev decree.

One Moscow editor said recently: "You must understand what it means when these privileges and powers are removed. You are threatening a way of life that has grown up in our society under Stalin and his successors."

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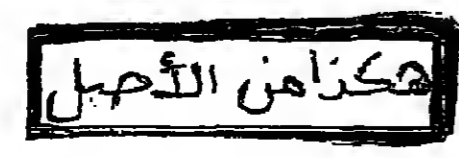
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Newly Rich May Consume the Middle-Class Consciousness of Japan

By Susan Chira
New York Times Service

TOKYO — Akira Akagi likes fine cars. He owns a Rolls-Royce, a Bentley, a Mercedes and a Porsche. He is awaiting the arrival of another Porsche, the 959. Although the 43-year-old entrepreneur will seldom get the chance to drive his new \$350,000 sports car — he will be too busy running a \$600 million group of real estate companies, boutiques, sports clubs, travel agencies, restaurants and a racing team — that does not trouble him. "I get a feeling of satisfaction," he says, "from owning it."

Mr. Akagi is one of the new rich in Japan. Within the last 10 years, Japan has staked its claim as the premier world exporter and — 40 years after its defeat in World War II — has emerged as the leading creditor nation.

The capital city reflects this new wealth and confidence. Tokyo

gleams. Boutiques sport the latest Japanese fashions. Buildings showcase the inventiveness of a new generation of Japanese architects.

"Ten years ago," said Mitsuru Saito, a senior economist at Sanwa Research Institute, "if you went skiing, you would use the less-expensive night train and stay at low-cost guest houses. Now, people take the bullet train and stay at resort hotels."

Capitalizing on the recent leap from prosperity to affluence in their country, entrepreneurs have made fortunes within a relatively short period.

Real estate developers, restaurateurs, architects, fashion designers and financiers, the new rich are different from the old. The latter category includes aristocrats who lost their titles but not their social status after World War II; descendants of the families that established the giant *zaibatsu*, or conglomerates; and postwar entrepreneurs such as Akio Morita

of Sony Corp. who created the companies that propelled Japan from poverty to prosperity.

The old rich tend to act as a class apart. They hide their wealth from most Japanese, abiding by the adage that the rich wear silk indoors and cotton in public. Such restraint was doubly important in the postwar years, when most Japanese were poor and conspicuous consumption was considered not only vulgar but provocative.

By contrast, most of the new rich mingle with ordinary Japanese. There are many more of them. In a country that is undeniably prosperous, they are less shy about flaunting their wealth.

Generally, they made their money in different ways than did the old rich. Rather than founding companies to export products, many of them sell services to Japanese who finally have enough money to spend on luxuries.

In the past, most Japanese who became rich did so only after years

of patient hard work. But some of the new rich have become millionaires overnight, not through business acumen but by being lucky enough to own stock or land at a time when prices were soaring. A plot of land bought or inherited years ago might have grown in value 10, 20, 100 times; stock holdings have similarly increased.

Yet, the visibility of the new rich and their swelling ranks have sparked fears that the gap is widening between the rich and everyone else. Indeed, 60 percent of the people who responded to a recent poll in the *Mainichi* Shimbun newspaper said they believed the disparity between classes was steadily increasing. This perception threatens one of the most precious assets of postwar Japan: the belief that everyone belongs in the middle class.

To understand the fervent attachment to the idea that Japan is a nation of middle-class people, one has only to remember that World War II destroyed not only cities but also landed aristocrats, business magnates and economic inequalities. Japan rebuilt itself into a society with one of the most even distributions of income in the world. For 40 years, the Japanese have taken comfort from the fact that most share a similar standard of living, and this has done much to ensure social stability.

The emergence of the new rich is prompting a debate about what to do with wealth and power in Japan. Many Japanese believe the affluence of their country should enable them to lead better lives. Others worry that rampant materialism has become the only goal, corroding such traditional values as selflessness and the importance of community.

Furthermore, if disparities in income and styles of living become glaring, will workers continue to put in long hours for the good of company and country? It was, after all, that unquestioning acceptance of the need for personal sacrifice that allowed Japan to become the economic giant it is today.

Hiroshi Aoyagi can afford a four-carat diamond ring for his wife and extended vacations in Hawaii, which he called "the closest thing to paradise on earth."

He remembers hunger. Born in 1941, he lived through the wartime devastation of Japan and its slow struggle to rebuild. But by the time he was out of college, his country had embarked on its dazzling ascent to industrial might.

He worked in an advertising agency for several years. When he was in his early 30s, he left with \$5,000 in savings to start his own business. His first venture, a trading company, failed. But Mr. Aoyagi said he learned a valuable lesson: Do not compete with big companies on their own turf.

So he opened a travel agency and used the proceeds to start Folio, now one of the largest modeling agencies in Japan. His other ventures include a typesetting operation and an advertising and public relations agency that brought "42nd Street" from Broadway to Japan.

Although Mr. Aoyagi's companies gross about \$80 million a year, he draws a salary of only \$500,000, putting most of the corporate income to use in new ventures.

He lives with his wife in an apartment in Aoyama, a fashionable neighborhood in Tokyo, is driven around in a Rolls-Royce and owns two summer villas. He spends little

luxury cars, large-screen televisions, custom-built kitchens, imported furniture and upscale electronics in Japan. His other ventures include a typesetting operation and an advertising and public relations agency that brought "42nd Street" from Broadway to Japan.

Neither the stock market collapse of last October nor a decided slowdown in previously booming land prices appear to have stemmed the rush to consume. Powered by renewed Japanese economic growth, the stock market has bounced back to pre-collapse levels. Land prices may not be going up, but they remain much higher than they were a few years ago.

The buying of luxury goods and

company in addition to running his own ventures. His salary, he said, is around \$600,000 a year, of which all but \$150,000 goes in taxes. But such things as his penchant for cars can be satisfied under the corporate umbrella.

In 1986, he opened a restaurant called Leyton House, and he used the logo on racing cars that he sponsors.

His racing team has garnered a great deal of publicity in Japan, and last year, Mr. Akagi introduced Leyton House brand sportswear, one line of which carries his racing colors, peppermint green.

"When I first started sponsoring racing," he said, "I didn't really have any product to sell. So I created the brand name and then followed it with a product. Most people do it the other way around."

Hirokyu Hiramatsu is not rich. At least, that is what he thinks. Mr. Hiramatsu, 35, remembers trudging through the streets of Paris 10 years ago, knocking on restaurant doors in find a chef willing to take on an apprentice. Now he owns Chez Hiramatsu, an elegant French restaurant that has become a fixture in the Azabu neighborhood of Tokyo. Dinners generally cost more than \$150 per person, and his restaurant is packed.

"I'm sure I'm not poor, but I feel middle class," he said. "I can buy whatever I like, and whenever I want to go overseas, I can go. Nonetheless, he said "I can't buy as much as a rich American."

Mr. Hiramatsu and his wife, who serves as *maitre d'hôtel*, together earn \$138,000 a year, compared with the national average of \$46,000.

As a self-employed businessman, he has the further advantage of being able to charge most of his expenses to his company, a tax provision that explains why it is mainly self-employed people who are able to amass significant wealth in Japan. His restaurant owns in France, he drives. His trips to France twice a year, where he leads his staff on culinary tours in search of new ideas, are largely tax-deductible.

The resistance Mr. Hiramatsu has to seeing himself as affluent reflects the Japanese embrace of the middle-class ethic. A 52-year-old owner of an office that prepares legal documents recently sold 600 square feet of land in central Tokyo for a price he said amounted to millions of dollars. He took his earnings and bought three houses in Australia. One house included a yacht and a pool. In Japan, however, he lives modestly in a small house in Tokyo and drives an old Nissan. "I don't want to give my name," he said, "because in Japan, being inconspicuous is a virtue."

If disparities in income and styles of living become glaring, will workers continue to put in long hours for the good of company and country?



As Billy Graham spoke Sunday in Beijing church, his words were translated by Philip Teng.

Graham Prays for China's Modernization

BEIJING — Billy Graham, an American evangelist, preached in a packed Beijing church Sunday and said he was praying for China's "moral modernization."

"China is undertaking a modernization program," Mr. Graham, 68, told a congregation of 1,000 in the Chinese capital's Chongwenmen church. "It is my prayer that there will be a great moral modernization, too."

Other foreign clergymen have preached in China since the Communist government began to ease curbs on religion in 1979. But this was the first public sermon by a pastor of Mr. Graham's renown. He spoke through an interpreter.

"Read the Bible. Work hard and honestly," Mr. Graham said. "And don't complain."

The Chongwenmen church, originally Methodist, was closed during the Cultural Revolution, a decade of political turmoil that ended in 1976 and saw the destruction of thousands of churches, temples and mosques. It reopened in 1982.

time in them; instead, he stays near Tokyo to play tennis, his newest hobby. During January and most of July and August, he abandons Tokyo for Hawaii.

"I enjoy vacations more than doing business," he said. "People work to make money, and they work like crazy. After they are 55 or 60, most people can afford a long vacation, but by that time I could be dead or too old to play tennis."

Yet, he has turned the pursuit of leisure into profit. "What's different about me is that work is an extension of my hobbies," he said. "I've been playing tennis, so I said 'I'll have a tennis club.' I'd do it this way." Now, he owns a tennis club.

Just how many people qualify as new rich is hard to determine. The national tax administration agency reported that 88,306 people each paid more than 10 million yen (roughly \$81,000 at current exchange rates) in income tax in 1986. The number paying more than 100 million yen that year was 1,226. According to the Misawa Homes Institute of Research and Development, the number of people who owned land worth at least \$2 million more than tripled to 333,500 from 1980 to 1987.

Last fall, *Nikkei* Venture magazine reported that 154 Japanese were worth 10 billion yen or more, compared with 80 in 1985. That survey did not include such famous billionaires as Yoshiaki Tsutsumi, the railway and real estate magnate whom *Forbes* magazine called the richest man in the world, because his assets are owned by his company.

By and large, however, chief executive officers tend not to reach the ranks of the very wealthy because they are salaried employees. Sales of jewelry, paintings, furs

services, however, is not confined to the new rich. Those who had saved to buy a home only to watch in horror as land prices made that an impossible dream are now spending their money on fine cars, clothes, jewelry.

Beyond possessions, creative marketers see opportunities in services as Japanese seek fuller lives outside work. Junior employees, for example, may save on expenses by living with their parents but treat themselves to \$200 meals at French restaurants every month.

"Japan may lead the world in what people actually own," said Toshiaki Izeki, a professor of sociology at Keio University in Tokyo, "but in what way are Japanese poor? In the life style they lead after 6 P.M. or on weekends. For years, to be busy at work was to be happy. To recover from this poverty will be the problem that Japanese face from now on."

Mr. Akagi, the collector of fine cars, became wealthy by sensing these needs. For 13 years, he worked in his father's real estate company. But he could not get his father in agree in his plans for expansion, so he quit to start his own business six years ago.

"We had a very bad argument, and he was so angry he didn't even pay me any retirement settlement," Mr. Akagi recalled. He was finally able to extract enough of a sum to start a real estate business of his own, based on buying relatively inexpensive back lots in Tokyo. It was a risky approach, because in order to get enough land for sizable buildings, he needed to buy front lots as well. But as land prices in the city rose, he said, he managed to outbid rivals for front lots.

Three years ago, Mr. Akagi was reconciled with his father. He now serves as president of his father's

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Mr. Wazir, who was deeply... Mr. Arafat earned a reputation... a moderating and conciliatory... in an organization that... can be fraught with... Mr. Wazir commanded the... of disident officers... from el-Fatah after... Mr. Arafat, for example... his own base of support... the meeting last spring... the PLO's legislative arm... fundamental in creating... that said that the PLO... could be willing to have... with non-Zionist Jews... loved Palestinian rights.

Mr. Wazir's death leaves a... as political vacuum in the... leadership. There is no... organization, with the... unity with the occupied... or the same ability to... logical feuds within the PLO.

As the PLO representative... Jordanian-Palestinian... matter for development... names, for example, he... ate knowledge of the... social dynamics of the... and wielded considerable... controlling the PLO funds... them. In addition, he... turned on closely following... in Israeli politics.

"He was someone whose... was Palestinian nationalism... said Helmi Ceban, a... at the Brookings Institute... author of a recent book... PLO. "He was also the... ent, but with considerable... of his own."

Mr. Wazir was accused... before that a... struggle... passed... the... for the... people.

Over the years he served... military... specialist... bloodshed... purchase... rance, and... for the... man case.

In 1984, when Mr. Wazir... he was arrested by Egyptian... theories for... since... and... forced... work. A year later he... his first major... upon... water... to... Hama.

It was as a... student... during... Middle East... that... other... Mr. Wazir... Together... formed... Paris.

After... out of... Mr. Wazir... shared... commitment to... Palestinian... and... served in his... his... addition to... Mr. Wazir... served by... and... children.

In the... Mr. Wazir... Mr. Arafat... there... in... for their... small... 100... Mr. Wazir... Mr. Arafat... China... to... the Middle... Mr. Wazir... military... and... to... to... to...

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BAHRAIN

With a new assertion of business confidence, Bahrain companies now see the country's potential role as a bridge to the markets of the Gulf Cooperation Council nations and as a sophisticated host to visitors from the Gulf and elsewhere. There is renewed optimism as diversification of the economy goes forward, building on the base of the most advanced financial and communications structures in the Middle East.

BAHRAIN'S unusually heavy winter rains have made the well-tended lawns and parks of Manama particularly verdant this year. Their spruce and manicured look matches the strong feeling in the business community that economic prospects are looking up, following the beginning of a gradual recovery from the oil price slump in 1987.

The mood reflects a sense of the past and future of an economy that has witnessed the full cycle of boom and recession in the region.

Situated halfway along the Gulf, off Saudi Arabia's Eastern Province, Bahrain occupies a strategic location on traditional Gulf trading routes. An abundance of fresh water — which, from springs on the sea floor, helped nurture the early pearl industry — together with sheltered anchorages in the archipelago's 33 islands have made Bahrain a natural commercial center throughout its long history.

Early decisions before the boom period led to development of a modern telecommunications and transport infrastructure that has been vital in maintaining confidence in Bahrain during a less expansive period.

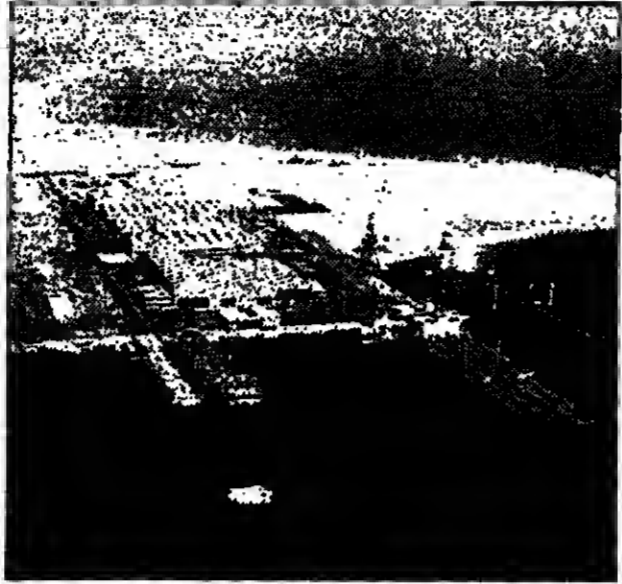
The record level of international telephone calls and the 1.5 million transit passengers who passed through Bahrain's international airport last year do not suggest a dormant economic environment.

There is a more relaxed mood this year. Bankers are encouraged by the planned opening of the Bahrain stock exchange during 1988. This follows the establishment in 1983 of an information system linking Bahrain's stockbrokers and providing data on 34 companies.

The 25-kilometer (15 miles) causeway linking Bahrain with Saudi Arabia opened in November 1986 and has had a significant impact, with one million vehicles having used the road link in the last year.

Apart from its industrial importance — providing a cheap land route between Manama's main port of Mina Sulman and Saudi Arabia — the causeway is helping one of Bahrain's main aims, the development of tourism.

Bahrain has always offered an urban and relaxed environment to the professional visitor and a wealth of



Arab Shipbuilding & Repair Yard drydock (above); central Manama and diplomatic area, Bahrain (right).

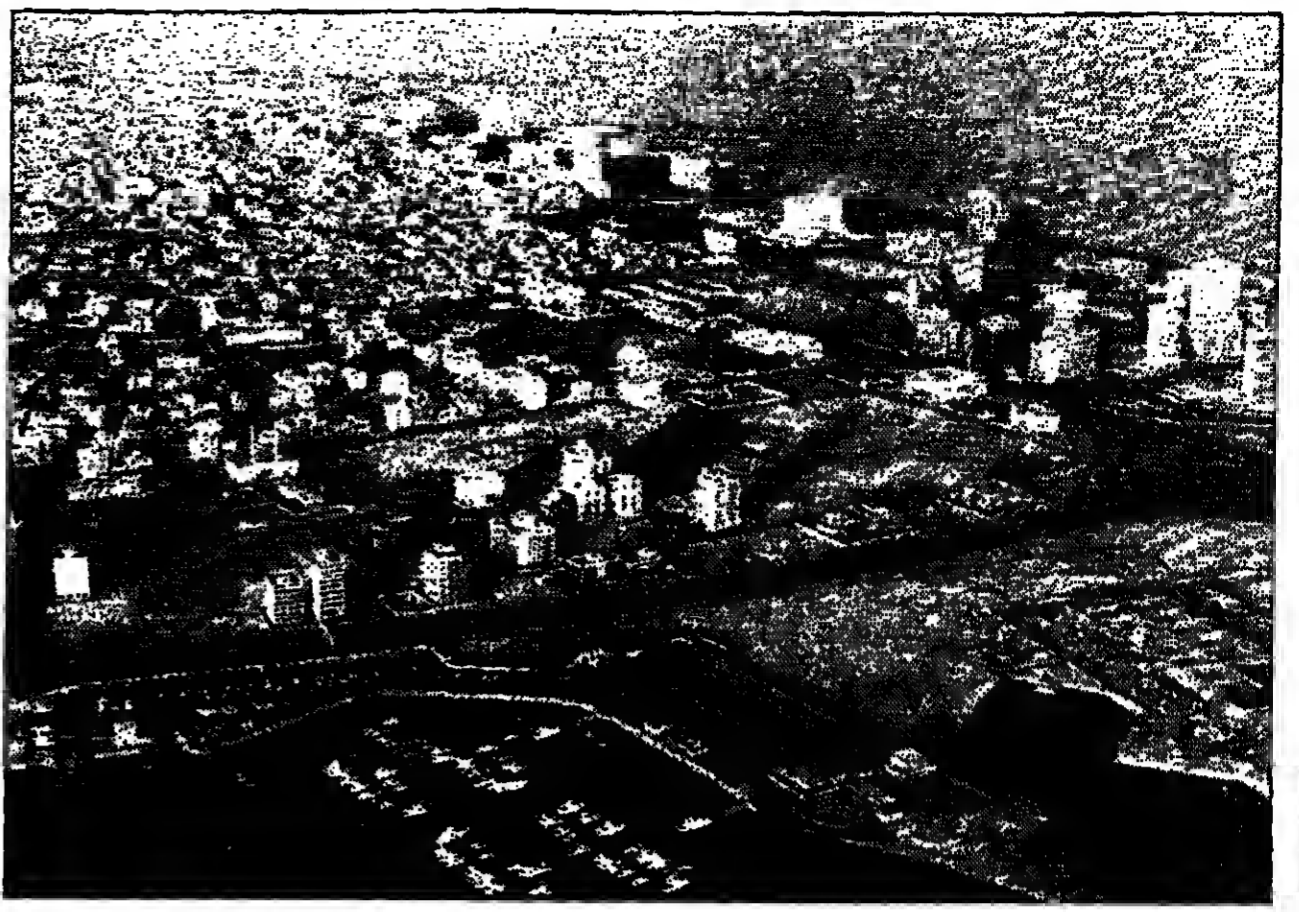
historical interest, now being steadily excavated, that traces Bahrain back 5,000 years when it was known as Dilmun.

From the government's viewpoint, tourism development, particularly aimed at Gulf nationals and their families, means the generation of foreign exchange, employment and encouragement of private investment in the services sector.

According to Information Minister Tariq Abdel Rahman Almoayed: "We want more Bahrainis to benefit directly from employment in tourism. There are now 5,000 jobs available in the hotel industry. These are being filled at present by non-Bahrainis."

Another key aim, but a much broader task, facing the government is the consolidation of existing industry and encouragement of further diversification moves away from the diminishing role of oil in the economy's future.

What has been achieved is already impressive. The



availability of Saudi crude oil in adequate quantities to supplement Bahrain's limited output led to the construction of the refinery run by Bahrain Petroleum Company (BAPCO) and now processing nearly 250,000 barrels a day.

The existence of natural gas also made viable the setting up of an aluminum smelter while the Arab Shipbuilding & Repair Yard Company (ASRY) operates one of the world's largest drydocks, able to accommodate ultralarge crude carriers of up to 500,000 deadweight tons. In 1987 its occupancy was nearly 90 percent.

Most of Bahrain's industrial base have had problems in the last two years. Problems have limited output at Arab Iron & Steel Company (AISCO), which is expected to be taken over by a group of investors led by the Kuwait Petroleum Corp.

The situation is more upbeat in Bahrain's aluminum industry, still the key to the government's diversification drive 17 years after production started.

The price per metric ton for aluminum soared in 1987 to an average of \$1,563, encouraging Aluminium Bahrain (ALBA — 57.9 percent government-owned) to produce 180,000 metric tons last year, 10,000 above its rated capacity. With prices still firm, ALBA expects production to reach 220,000 metric tons a year by 1990.

Plentiful supplies of cheap natural gas have boosted ALBA, which is providing jobs to 1,650 workers — the majority of them Bahrainis. Ancillary industries have also been developed, including Bahrain Aluminium Extrusion Co., International Bahrain Aluminium Atomizer Co., Midal Cables and the newest, Gulf Aluminium Rolling Mill Co.

All of Bahrain's major manufacturing enterprises are seen as having bright futures, although officials say one lesson to be drawn from the industrialization process is not

to spend heavily on big plants that create only a few jobs at high cost.

In partnership with the other Gulf Cooperation Council states, Bahrain is looking for opportunities for import substitution.

At the beginning of 1987 the Ministry of Development and Industry, assisted by the United Nations Industrial Development Organization and Ireland's Industrial Development Authority, began researching import substitution manufacturing opportunities based on the Gulf markets.

Two seminars were held last year in June at which these opportunities were presented to potential Bahraini private sector investors. Following the investors' expression of interest, the ministry, with the IDA, embarked on the next stage of obtaining overseas joint venture partners. A wide range of product areas has been identified for possible local production, including insecticides, mirrors, soap, electric motors, transformers, bandages, gauze and boot polish.

Government officials say: "We are encouraging small industries to replace imports and we will bring in foreign partners."

The government intends an increased effort, including setting up overseas promotional offices, to promote Bahrain as the most suitable location for overseas companies wishing to establish manufacturing units in the Gulf. The expanding markets in the Gulf Cooperation Council are estimated to comprise the ninth largest economic unit in the world.

In the next five years the GCC aims to substitute 30 percent of its imports by local manufacture. It also seeks to avoid excess production capacity. Therefore, it is argued, the manufacturing ventures established early will operate from a privileged position.

—Anthony Richard



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- Why is Bahrain famous for its pearls? (A) Size of Oysters (B) Quality of pearls due to fresh water underground springs mixing with sea water (C) Traditional skills of the pearl divers
- How many off-shore banks are there in Bahrain? (A) 20 (B) 50 (C) 69
- How many passengers transit through Bahrain each year? (A) 500,000 (B) 800,000 (C) 1.5 million
- What is the length of the King Fahd Causeway linking Bahrain and Saudi Arabia? (A) 25 km (B) 28 km (C) 30 km

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Market Review

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| Symbol | Price | Change |
|------------|--------|--------|
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| Microsoft | 45.00 | +0.50 |
| Apple | 35.00 | +0.25 |
| Oracle | 25.00 | +0.10 |
| Lotus | 15.00 | +0.05 |
| Novell | 10.00 | +0.02 |
| Intuit | 8.00 | +0.01 |
| Parsons | 6.00 | +0.01 |
| CompuLink | 5.00 | +0.01 |
| CompuShare | 4.00 | +0.01 |
| CompuServe | 3.00 | +0.01 |
| CompuWorld | 2.00 | +0.01 |
| CompuLink | 1.50 | +0.01 |
| CompuShare | 1.00 | +0.01 |
| CompuServe | 0.80 | +0.01 |
| CompuWorld | 0.60 | +0.01 |
| CompuLink | 0.50 | +0.01 |
| CompuShare | 0.40 | +0.01 |
| CompuServe | 0.30 | +0.01 |
| CompuWorld | 0.20 | +0.01 |

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| Symbol | Price | Change |
|------------|--------|--------|
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| Microsoft | 45.00 | +0.50 |
| Apple | 35.00 | +0.25 |
| Oracle | 25.00 | +0.10 |
| Lotus | 15.00 | +0.05 |
| Novell | 10.00 | +0.02 |
| Intuit | 8.00 | +0.01 |
| Parsons | 6.00 | +0.01 |
| CompuLink | 5.00 | +0.01 |
| CompuShare | 4.00 | +0.01 |
| CompuServe | 3.00 | +0.01 |
| CompuWorld | 2.00 | +0.01 |
| CompuLink | 1.50 | +0.01 |
| CompuShare | 1.00 | +0.01 |
| CompuServe | 0.80 | +0.01 |
| CompuWorld | 0.60 | +0.01 |
| CompuLink | 0.50 | +0.01 |
| CompuShare | 0.40 | +0.01 |
| CompuServe | 0.30 | +0.01 |
| CompuWorld | 0.20 | +0.01 |

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| Symbol | Dividend | Yield |
|------------|----------|-------|
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| Microsoft | 1.00 | 2.2% |
| Apple | 0.50 | 1.4% |
| Oracle | 0.25 | 1.0% |
| Lotus | 0.10 | 0.7% |
| Novell | 0.05 | 0.5% |
| Intuit | 0.02 | 0.2% |
| Parsons | 0.01 | 0.1% |
| CompuLink | 0.01 | 0.1% |
| CompuShare | 0.01 | 0.1% |
| CompuServe | 0.01 | 0.1% |
| CompuWorld | 0.01 | 0.1% |
| CompuLink | 0.01 | 0.1% |
| CompuShare | 0.01 | 0.1% |
| CompuServe | 0.01 | 0.1% |
| CompuWorld | 0.01 | 0.1% |
| CompuLink | 0.01 | 0.1% |
| CompuShare | 0.01 | 0.1% |
| CompuServe | 0.01 | 0.1% |
| CompuWorld | 0.01 | 0.1% |

Utilities Trading

WestLB

Extensive Financial Presence Due to Bold Policies by Key Institutions

BANKING arrived in rudimentary form in Bahrain in 1921, when a branch of the Eastern Bank — now the Chartered Bank — started business. More than 20 years later it was joined by others. But it was not until the middle of the 1960s that the island's spectacular modern banking era began.

The early pioneers had witnessed the gradual change of the economy from pearl fishing to oil production and the transformation of Bahrain into a service center for the Middle East.

Today the banking and financial system of Bahrain comprises the Bahrain Monetary Agency — the central bank authority — 20 commercial banks, one specialist bank for housing and the Bahrain Islamic Bank. It also includes 69 offshore banking units (OBUs), 62 representative offices, 15 investment banks, 6 money brokers, 18 insurance companies and 21 money changers.

The extensive financial presence is due in no small measure to the bold and imaginative policies of the BMA, one of the region's most highly regarded central banks.

The BMA's plan to make Bahrain a center for international liquidity offered exemption from holding reserves with the cen-

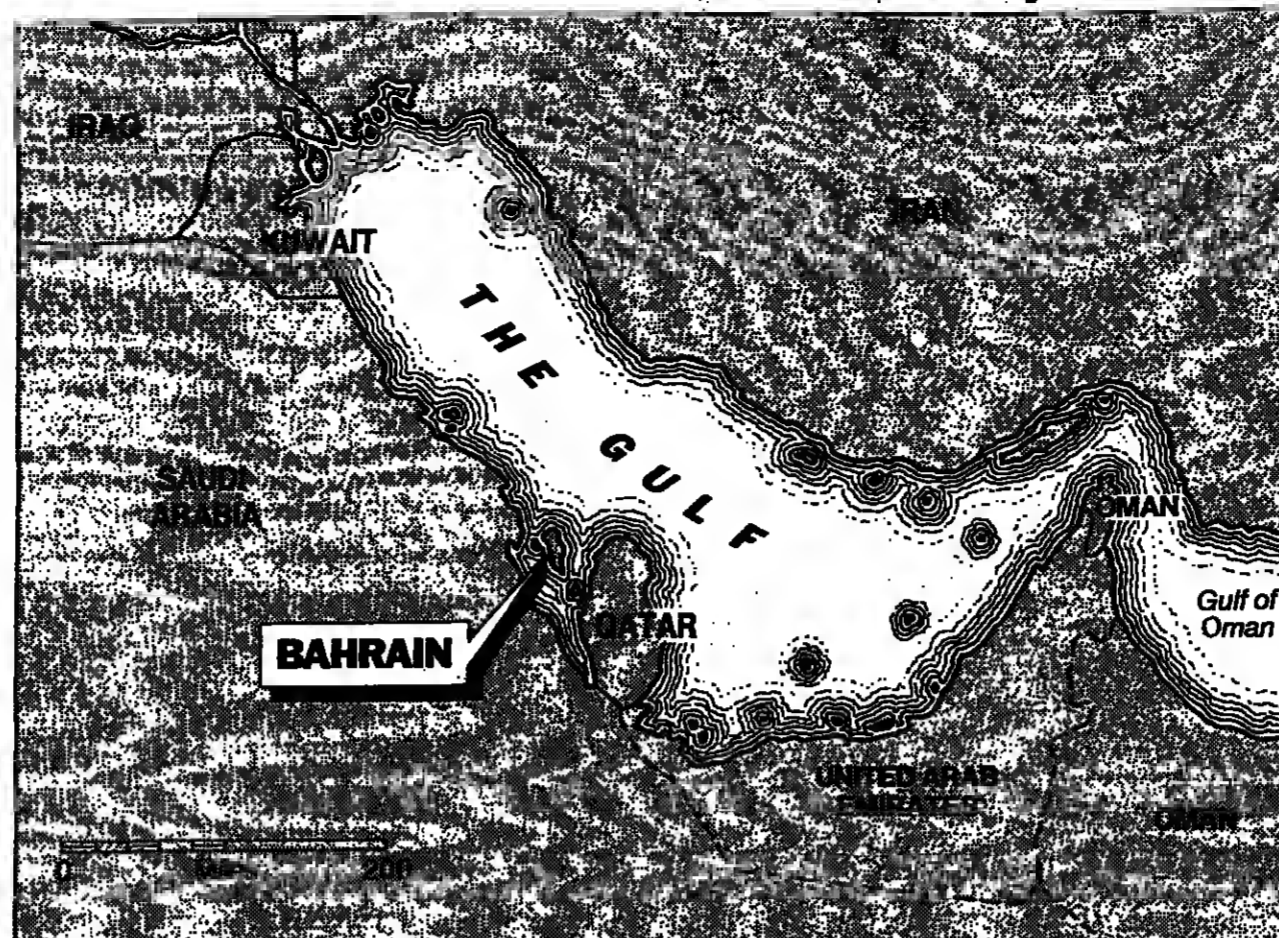
tral bank or from observing liquidity ratios. Withholding tax was not applicable to the interest earned by their depositors and no tax was to be paid on their income.

Expatriates have also been attracted by the open and pleasant living conditions in Bahrain. And the island's time zone has been important. Overlapping the closing of markets in Tokyo and the opening of those in New York, Bahrain's time position allows three to four hours for transacting deals with Singapore, Europe and London at rates prevailing in the world's major financial markets.

At present, the investment banks are the best-performing sector of the local offshore market. Japanese security houses, in particular, are expanding their activities and staff to deal with demand for yen-denominated securities in the Gulf.

The growth of Bahrain as a banking center has created a wealth of opportunities for its citizens. In 1986 the OBUs employed 2,113 people, 61.4 percent of whom were Bahrainis. In the same year the estimated direct financial benefit to Bahrain from the presence of the OBUs was \$197 million.

Local banking still bears the mark of several substan-



tial foreign institutions including the British Bank of the Middle East (BBME), the second bank to set up in Bahrain in 1944.

More recently BBME has led in the introduction of automatic teller machines (ATMs). It was the first of the big five commercial banks to install an ATM in 1984 and has be-

come a pacesetter in the application of electronics to banking services. That is also reflected in the use of the Hexagon computerized system by BBME's corporate side.

The changing nature of the market and competitive pressures are encouraging Bahrain's institutions to pay greater attention to cus-

tommer services and operating costs.

A significant problem for the OBUs is that the type of activities they were set up to do, including the financing of foreign trade and provision of performance and guarantee bonds, has been reduced in the last three years.

Hussain Ali Juma, gen-

eral manager of National Bank of Bahrain, the oldest and largest local bank, founded in 1957, says: "I do not think the OBU era is drawing to a close. The market is going through a rationalization process. Those OBUs that have decided to stay are investing in the future."

ALUBAF Arab Interna-

tional Bank EC, which recently announced its consolidated 1987 results showing a 21.6 percent increase in operating profits before provisions to \$9.6 million, is also confident about the future. It says the imminent relocation of its head office to newer and larger premises in Bahrain's Diplomatic Area can be taken as a sign of the bank's belief that it can continue to increase levels of business activity in the coming years. Apart from the zest they have brought to the development of Bahrain as a service economy the OBUs are recognized in having assisted in the growth of a forward market in regional currencies to the benefit of all those engaged in external trade and investment in the region.

Their presence has also encouraged the establishment of exempt companies. These have headquarters in Bahrain but trade outside the island. Their number had grown from 16 at the end of 1978 to 155 at the end of 1985. Bahrain's commercial banks, as well as the OBUs, face challenges as the region adjusts to a lower tempo of activity after the recession. But there is progress. BMA figures show that, comparing the first nine months of 1986 to the comparable period of 1987, the combined assets of the local banks and Bah-

rain branches of foreign banks grew 5.3 percent from BD 1.436 billion (\$3.807 billion) to BD 1.512 billion (\$4.010 billion).

A doyen of the local banking community, Robert Van der Mei, general manager of Algemeine Bank Nederland (ABN) is sanguine about future prospects. The bank, which started business in Bahrain in 1975, has seen the whole business cycle in the region.

"When we started, the concentration was on commercial banking activities," he says. "Now the focus is on foreign exchange and vehicles such as treasury bills, bankers acceptances as well as specific products such as interest rate swaps, options, futures, forward rate agreements and investment advice."

"ABN's strategy in the Middle East has been a typical one of go out and show your face and get trusted. Our rationale for a branch is long-term as is our relationship with clients," he says.

"ABN has had branches in the Far East for more than 100 years. We have experienced 10 good years in Bahrain and two lean ones. We have had to trim a bit and have increased automation but we came to stay. This is an important part of the world and will remain so." — A. R.

Arab Banking Corporation: The Fruits of Diversification

IN just eight years since its formation, the Arab Banking Corporation has grown rapidly. The latest report and accounts shows that total assets grew by 20 percent over 1986 from \$14.582 bil-

lion to \$17.548 billion and that total footings at the end of 1987 stood at \$28.806 billion compared to \$24.162 billion at the end of 1986, an increase of 19 percent.

ABC is owned by Ku-

wai's Ministry of Finance, the Abu Dhabi Investment Authority and Libya's Secretariat of Treasury. Each of them paid \$250 million toward the bank's authorized \$1 billion capital. From the outset, the bank's policy

has been to develop on a global basis. In the last report and accounts the Arab world was the source of less than 20 percent of ABC's earning assets.

Led by operations in Europe and the Far East,

worldwide growth is reflected in a steady stream of acquisitions, including controlling shareholdings in Spain's Banco Atlantico group, International Bank of Asia (formerly Sun Hung Kai Bank) in Hong Kong and West Germany's Richard Daus & Company, as well as a 25 percent stake taken in the Union Bank of Bangkok in 1987.

More recently, performance has reflected the growing impact of ABC's diversification program as it moves from being an offshore entity operating in the interbank market toward becoming a leading international institution.

ABC is now playing a more direct, varied and ac-

tive role in the world's major financial centers.

Early in 1987 ABC moved into its spacious and prestigious ABC Tower headquarters building in Manama's diplomatic quarter and subsequently introduced a wide-ranging reorganization of group management. This has involved setting up a Bahrain head office branch as well as the creation of several senior executive positions and management committees. These moves assist the control and coordination of ABC group's diverse and expanded international network, which now employs more than 5,000 people.

ABC's acquisition policy has done more than establish its presence. Arab



Abdulla Saudi, president, Arab Banking Corporation.

Banking Corporation-Daus & Company has, for example, been transformed from a private West German banking house into an in-

ternationally active merchant and commercial bank. ABC's Milan branch now rates the second largest foreign banking operation in Italy, comments ABC president and chief executive, Abdulla Saudi.

After completing nearly 30 years as a banker, Mr. Saudi is an advocate of traditional methods in banking. As for the trend toward "securitization" of international lending through commercial paper and more issuance facilities, ABC is not convinced that these new capital instruments represent a realistic long-term substitute for direct bank lending for many countries and corporations. "After last October's stock market crash, a lot of banks, us included, are reviewing the trend and emphasizing traditional lending," Mr. Saudi says.

Future development of ABC's banking base will be dictated by market conditions. "No acquisition is really in mind, but we would not decline an opportunity which was unlikely to be repeated," comments Mr. Saudi.

Geographically, the Far East is seen as important to the future. "We feel that our existing presence there must develop because of the flow of business between the two areas," he says.

What concerns Mr. Saudi are the blanket generalizations that outsiders make about the business environment in the Middle East. Mr. Saudi is particularly critical of the demand for provisions in accounts which, as an international bank, ABC concurs with. "The trend towards making provisions may be suitable for the U.S. or Europe, where taxation questions may be a factor. For us the importance is to have the funds."

"The international community should judge the region by its assets in the ground," he contends. "I believe in cycles and by 1993-95 we will see the oil price going up. I am full of confidence about the availability of funds. We have to adjust to new trends and overcome difficulties and have to be cautious but not look at things in a simplistic way." — A. R.



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ADVERTISING SECTION

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Arab Interest In Tokyo Market Grows



Takao Nakajima, head of Nikko Securities M.E.

THE Japanese were relative latecomers to Bahrain. They experienced the final years of the region's boom period as well as the more subdued business period that followed. Commitment to Bahrain as a center for operations in the region, however, remains undiminished. The positive attitude is reflected at government level by the raising of the Japanese consulate to full ambassadorial status from this April.

The number of Japanese citizens living in Bahrain is estimated to have doubled to about 500 in the last three years. In the financial sector, 17 Japanese banks and eight securities houses are represented on the island. The latter in particular display confidence about current business and future prospects.

In June, Nikko Securities Company expects to announce the formation of Nikko Investment Banking (Middle East) as an exempt company. Daiwa is also expected to raise its status while Sanjo Securities is due to add to the already formidable Japanese pres-

ent of Nomura Investment Banking (Middle East), also emphasizes the lessons to be drawn from the Black Monday stock-market crash. Last October the Dow Jones and Financial Times indexes fell 36.1 percent and 32.1 percent below their year-high levels. In the same period, the lowest that the Nikkei Average fell below its 1987 high was 17.8 percent. It then rebounded 4.2 percent within a week, making the Tokyo market a focus for international investors. Losses in Tokyo were, Mr. Morozumi points out, offset by the appreciation of the yen against the dollar.

"After the crash we thought many investors would withdraw from the market; in fact the response has been the opposite," he comments. "Our business depends on the market. But we feel the worst is over and things have bottomed out, though this may not be reflected in accelerated recovery. However, one can see quite significant developments in the next three to five years. Investors cannot depend on dollar-denominated stocks. People are diversifying and once they start they continue. We offer a diversified portfolio to clients large or small and the quality of information offered to both is the same."

Mr. Shoji of Okasa is also confident about long-term prospects, declaring: "The cake can get bigger because the client base is there." Client potential is seen in Bahrain as well as Saudi Arabia and Kuwait. "Many would like to know more about the markets we deal in," Mr. Shoji says. Meanwhile, the Japanese presence in Bahrain matures to accommodate a growing interest and awareness of the investment possibilities available both in Japan and other Far Eastern markets.

Building an Insurance Market in the Arab World

ARAB Insurance Group (ARIG) will have completed seven years of operations by this July, a period in which it has established a respected and expanding role for itself in the international insurance and reinsurance market.

A net income of \$15.1 million was announced by ARIG's board on March 17 together with a dividend totaling \$10.5 million — the same as in 1986. The most significant aspect of the group's results is that, for the first time, ARIG made a profit of \$6.9 million from its reinsurance operations compared to a loss of \$3.8 million in the previous year. Last year's earned premium income of \$157 million was also an impressive increase of 31 percent over the 1986 figure of \$119.7 million.

The group was formed with finance from Libya, Kuwait and the United Arab Emirates in 1981 in Bahrain with the intention of establishing an Arab-based and Arab-managed insurance adjunct to the world insurance scene.

According to its general manager, Nouruddin A. Nouruddin: "Basically the strategy is to build a home market in the Arab world. We believe we can do it in all branches of reinsurance."

However, the pace of growth for ARIG has reflected its international operations. Four years ago about one-third of ARIG's business came from Arab markets. These now account for one-fifth, not because of an absolute decrease in the region but because of the faster increase of business in other markets.

ARIG has seen a steady expansion in all areas of its activities since its formation. The highest rates of expansion have been achieved in the specialist areas of aviation and oil reinsurance.

From the outset ARIG has emphasized the development of an international facultative book of business based on a selective and conservative underwriting policy. By the end of 1986 the gross written premium in the facultative division

was \$116.8 million, representing nearly two-thirds of the group's total gross written premium.

The biggest proportion of this was accounted for by aviation reinsurance while offshore oil business augmented the gross premium from the oil production sector, refineries and petrochemical plants.

ARIG has a particular commitment to the aviation industry and has built up its account to the extent that it participates in the majority of the world's airline insurance programs. The group's policy is to write purely major risks. In 1986, 43.7 percent of ARIG's aviation market was in North America, 23.6 percent in Europe and 13.6 percent in Arab countries.

It was not until 1985 that ARIG's oil department started to extend cover to offshore risks, reflecting the group's cautious policy of not proceeding until it has the necessary expertise.

In the oil reinsurance business, technical knowledge is essential. Not only does ARIG have the capac-

ity, but it has built up in the last few years extensive worldwide contacts and developed the expertise to service the oil industry's highly specialized needs.

In 1986 the majority of onshore premiums (31.9 percent) came from Arab countries and most of the offshore premiums (30.2 percent) from North America.

ARIG has adopted a selective underwriting policy with regard to treaty business. Five accounts for 59.9 percent of the portfolio and marine cargo 17.8 percent. The geographic distribution of activity reflects a commitment and support of the Arab markets, which provided 43.5 percent of business in 1986.

Since 1981 ARIG has concentrated on a selective penetration of its various markets, developing professionalism and annual growth based on quality business.

Insurance market conditions, which had already worsened in 1987, are expected to remain weak throughout 1988. In spite of this, ARIG is confident

of being able to sustain a modest rate of growth in premium income in 1988 and looks forward to a year of record profitability.

"We have to plan ahead and are taking the strategic decision to place ourselves closer to markets," Mr. Nouruddin says. In particular the company intends to strengthen its position in the Arab and Afro-Asian markets. To reinforce the strategy, ARIG will shortly be opening a branch in Hong Kong and then another in Tunis, in addition to its existing contact office in London.

The group is also pressing ahead with its policy of developing a high level of Arab insurance skills and an ongoing training program has already produced a number of highly qualified Arab underwriters.

ARIG's future is international. "Through new marketing and distribution channels we expect to penetrate new markets, especially in the Arab world," Mr. Nouruddin says.

— A. R.

Aluminum Industry Turns in a Record Year

IN 1971, when the Aluminum Bahrain (Alba) plant began operations, it marked the island's first and biggest attempt to diversify its economy. The performance of this 57.9 percent government-owned investment has since exceeded all expectations, as production is running at record levels and world aluminum prices have reached an all-time high. Since the operation began, Alba has produced over two million metric tons of metal, and operated

more than BD 700 million (\$1.856 billion) worth of exports.

Strategically located between Western Australia's raw material sources and the Asian and European markets, Bahrain also enjoys the advantages of an abundant supply of cheap natural gas. Alba's efficient management techniques have further helped contain production costs, which have remained constant for more than a decade.

With Alba acting as a focus of Bahrain's industri-

alization, downstream operations have naturally followed. Bahrain Atomisers was Alba's first spinoff, set up in 1972 to produce aluminum powder for the manufacture of paints and explosives.

In 1976, Bahrain Saudi Aluminum Marketing Company (BALCO) was established. BALCO markets the government's share of Alba's production alongside that of Saudi Arabia, which has a 20 percent interest in the smelter.

Bahrain Aluminum Ex-

trusion Company (BALEXCO) was set up the following year. Though it can produce all types of extrusions, its output typically reflects the construction industry's needs for items such as doors, cladding and window-frames.

Mical Cables followed a year later. The Gulf's sole specialist producer of aluminum conductors for overhead power transmission lines, it is one of the largest users of Alba's high-quality output.

Most recently, the Gulf

Aluminum Rolling Mill Company (GARMCO) was set up to produce sheet and coil aluminum. It represents the first big project undertaken by the Gulf Organization for Consulting (GOIC) and is the largest downstream aluminum venture in the region.

Now Alba is planning to invest over \$100 million in its smelter. The move should take production levels to 225,000 metric tons per annum by 1991.

— A. R.

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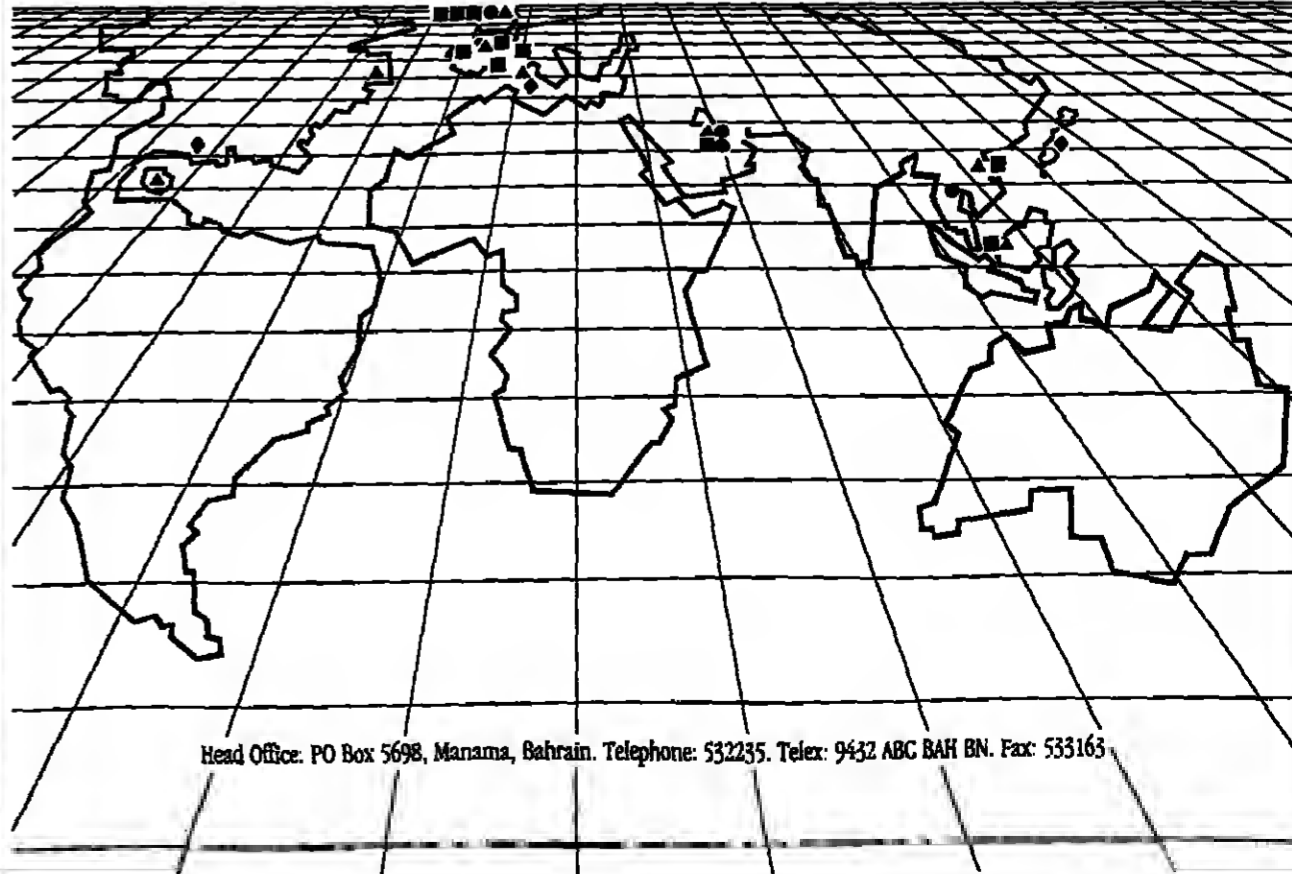
ARAB BANKING CORPORATION (B.S.C.) FINANCIAL HIGHLIGHTS 1987

Arab Banking Corporation (B.S.C.) experienced another year of balance sheet growth and at the same time maintained satisfactory operating profits during 1987. Operating profits for the Group before taxation, minority interest and loan loss provisions amounted to US\$188 million compared to US\$175 million for last year. To reflect the realistic and current status of LDC debts and its required provisions of US\$375 million, the Board of Directors decided to allocate all profits after taxes and minority interests to loan loss provisions in addition to US\$217 million transferred from reserves and retained earnings.

Financial Highlights - 1987

| | 1987 | 1986 |
|---|-------------------|--------|
| | (in million US\$) | |
| Total Assets | 17,548 | 14,582 |
| Total Loans & Advances | 7,171 | 5,999 |
| Marketable Securities | 1,268 | 1,056 |
| Deposits with Banks & other Financial Institutions (placements) | 7,422 | 6,351 |
| Total Deposits | 14,322 | 11,629 |
| — Deposits from customers | 5,538 | 3,530 |
| — Deposits from Banks & other Financial Institutions | 8,784 | 8,099 |
| Total Capital Resources | 1,726 | 1,719 |
| Shareholders' Funds | 1,058 | 1,261 |

▲ Branches ♦ Representative Office ■ Subsidiaries ● Affiliates



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Communications: A Sophisticated Link in a Global Network

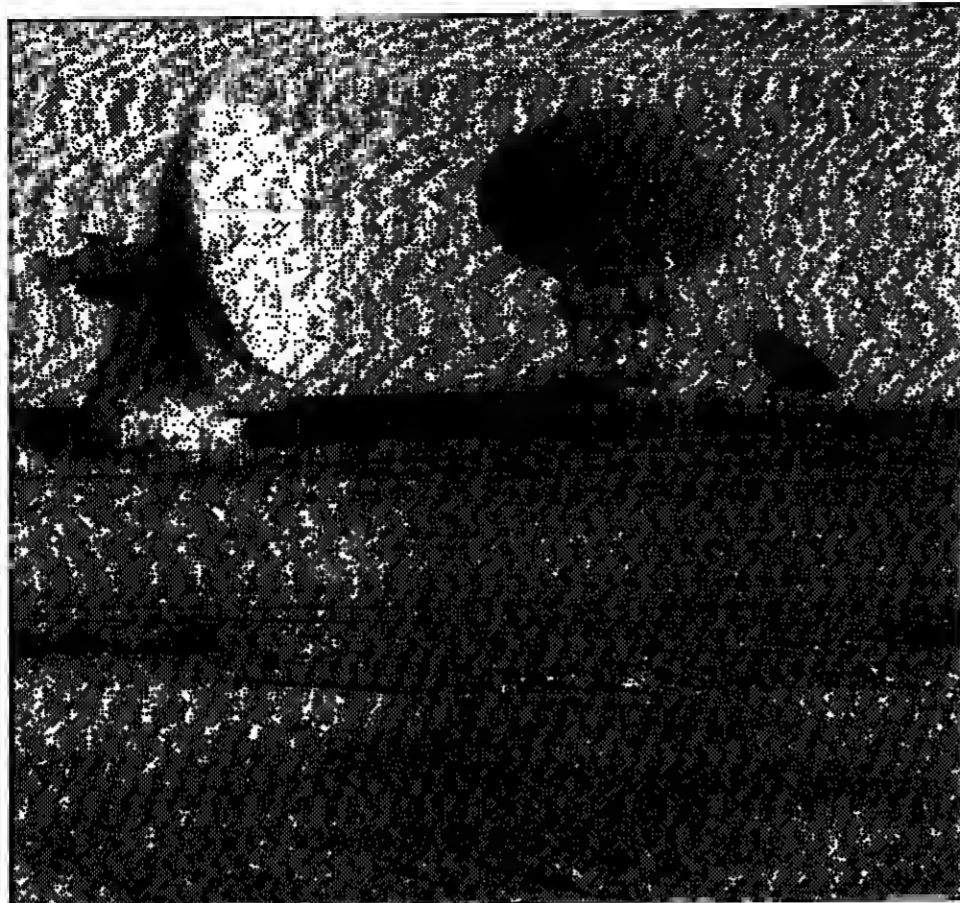
A VISITOR walking in the main thoroughfare of Manama is soon aware of how pervasive, widely used and vital telecommunications are to the island.

A car drives by, its passenger in earnest conversation via a radiotelephone. In nearby offices, financial dealers monitor the computer screens that link them with stock markets across the world. From one of many public boxes installed by Bahrain Telecommunications Company (Batelco), an American casually places a collect call to Texas. Bahrain is truly a telephone society.

Availability of broadly based and reliable telephone services plays an important social as well as business role in the island, allowing both ordinary Bahrainis and workers from outside to maintain regular contact with their families from afar. Bahrain's present ratio of 30 telephones per 100 persons, while open to expansion, is impressive when compared to many other parts of the world.

Bahrain's telecommunications story is one of leadership and technical innovation in the Middle East provided by Batelco since 1981 and previously by the U.K.'s Cable & Wireless, which retains a 40 percent shareholding in the now largely Bahrainized company.

One of the key factors in the island's development as a major commercial center has been a commitment to develop international telecommunications services. The opening of the Middle East's first satellite earth station in 1969 underlined a determination to invest heavily in a drive to estab-



Satellite earth station complex at Ras Abu Jarjur.

lish Bahrain as a sophisticated link in the international telecommunications network.

There are now three earth stations located at Ras Abu Jarjur on Bahrain's southeast coast. Two of them link up with Intelsat satellites over the Indian Ocean and the Atlantic. In 1985, a third link was established with the Arab Satellite (Arabsat) system.

Intraregional links are maintained through a 1,200 channel submarine cable connecting Bahrain to the United Arab Emirates and Qatar. A microwave system, due to be replaced by a fiber-optic cable across the causeway, connects the island with Saudi Arabia.

The system carried near-

ly 39 million minutes of international connections in 1987, a phenomenal total given the relative size of Bahrain and its small population.

The modern infrastructure has allowed Bahrain's extensive financial community and other sectors with specific and complex telecommunications requirements to introduce state-of-the-art equipment. Last July, a miniature financial data receiver was launched in conjunction with Reuters, one of the many Batelco clients that base their Middle East operations in Bahrain.

Alongside the reliability of Batelco's services, their availability has been equal-

ly important in drawing business to Bahrain. Response to faults is rapid. While 90 percent of applications for telephone services are completed within 18 working days, 70 percent are complete within six. Such performance exceeds average European standards.

The growth of new services for Bahrain's business community has been spectacular. Around 463 leased circuits for database access, facsimile, teleprinter traffic and voice communications were in operation by the end of 1987.

Meanwhile, further demand for the International Database Access Service (IDAS) is expected to fol-

low recent tariff reductions. Last year, the number of subscribers to Batelco's public paging system grew from 912 to 2,091. Equally dramatic growth has been recorded by Batelco's Mobile Automatic Telephone System. Its initial 1,000-line capacity will be quadrupled this year.

Bahrain's telecommunications services remain ahead of others in the region. While others have spent huge sums to catch up, there is little doubt that Batelco has set the standard for them to follow. This pattern is likely to continue as the telecommunications world gears up for the introduction of Integrated Service Digital Networks (ISDN) in the coming decade. This multipurpose digital telephone system will accommodate services such as data and fax as well as voice on a single network.

In readiness for ISDN, a second phase of development linking Bahrain's national and international networks with a fiber-optic ring was completed by Batelco last year. An operation to extend and complete the ring is to start this year.

By the end of 1987, 65 percent of Bahrain's national telephone network was based on digital technology. Batelco's overall strategy also allows for accelerated depreciation on older exchanges to encourage acquisition and installation of newer equipment.

A new message switching center, due for completion at the end of 1988, will be the largest real-time computer-operated switching center in the region and will help Batelco develop its international services by providing new private network applications. At the other end of the user spectrum, the latest "intelligent" payphones are already being steadily installed.

— A. R.



Dealing room of Manufacturers Hanover Trust.

MHT: A Multinational Builds Middle East Hub in Bahrain

THE operations of Manufacturers Hanover Trust (MHT) span the globe, with foreign exchange transactions in excess of \$2 million trading in 24 locations. Bahrain is the focus of MHT's Middle East trading, generating significant amounts of documentary credit and funds transfer business for branches around the world.

Despite the economic downturn in the region, the area remains a significant business focus with considerable potential, according to Albert Kittaneh, vice president and manager of MHT's Bahrain branch. In line with the statement of confidence, MHT's Bahrain operation has been expanded. Today it has a staff of 54 compared to only 32 in 1983.

"The present atmo-

sphere is good. Despite recession, there are substantial funds available for investment," Mr. Kittaneh says.

When first established in Bahrain, MHT was concerned exclusively with the traditional letter of credit and refinancing business. Since then business has evolved in accordance with the region's demand for increasingly sophisticated financial services. A key reason is Bahrain's time bridge position in world markets. A seven-day-a-week operation is maintained by MHT for its customers with the bank able to reach international money markets almost instantaneously through high-speed data links.

Bahrain is now the hub of MHT's foreign exchange business in the Middle East and is the leader in spot interbank trading in the Gulf, Mr. Kittaneh says.

A factor that has encouraged the growth of MHT's local client base is its reputation for innovative products and services. These include a payments system based on a user's personal computer that was introduced last year. A security clearing service is presently being marketed that guarantees completion of back office work in stock market transactions, which is seen as particularly valuable for clients in the Middle East.

MHT's global status allows it to play a broad role in the region. In October 1987, MHT, as lead agent for 38 banks, concluded 21 months of intensive negotiations on a massive SR 1,300 billion (\$346.6 million) financing for Ghaith Pharaoh's Saudi Research

& Development Corporation (Redec). The agreement is the biggest of four major "work outs" that MHT has been involved in since 1985 in the region, Mr. Kittaneh says.

"We have looked over the horizon and determined that there are still very good companies in the area," he adds. "Oil revenues are still substantial by any standards. Economies have learned to live with a reduced level of expansion. At the corporate level there is a more seasoned attitude. Having lived through both boom and recession cycles, better executives have emerged who have seen both sides of the equation."

The boom conditions are not expected to return, says Mr. Kittaneh, who identifies a move by the region's economies toward services. "A two to four percent growth in GNP is a respectable standard. If we can make money in the West at this level of activity we can do so in the Gulf."

Obtaining more from a smaller cake calls for competitive skills, as well as finely honed products. MHT's Bahrain branch stresses the continuity of management that is the bank's hallmark. Mr. Kittaneh's predecessor is now in New York dealing with Gulf business. A cadre of Bahrain staff has also been developed by MHT.

"Providing a core of knowledge within our institution and knowledge of what we are doing in the area — these are particularly vital ingredients in the Middle East," concludes Mr. Kittaneh.

— A. R.

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ADVERTISING SECTION

Gulf Air Targets a Decade of Growth

THESE are busy times for Gulf Air as it finalizes its strategic plan for the 1990s. Over the past two years, along with other key economic sectors in the region, the airline has had to restructure operations in the face of recession.

Now it is looking toward the future with confidence. A determination to succeed is reflected in plans to replace its fleets, enhance services and develop new routes. According to Gulf Air's president and chief executive, Ali Ibrahim Al-Malki, the strategy — which awaits board approval — asks: "What are we? Where are we going and how are we going to achieve our goals?"

Other major decisions relate to marketing and, not least, fleet replacement, he adds.

The airline, which currently operates two fleets comprising 11 Lockheed L1011 TriStars and eight Boeing 737 aircraft, serves 34 international destinations. Originally established in 1950, the airline is jointly owned by Abu Dhabi, Oman, Qatar and Bahrain — where it has its headquarters.

"In the next five or six years we will have replaced our fleets with new aircraft," Mr. Malki says. "By the end of 1988, hopefully, we will have decided all our single aisle and wide-body requirements."

The potential procurement of large numbers of new aircraft by Gulf Air has drawn keen interest from American companies such as Boeing and McDonnell Douglas and Europe's Airbus consortium.

Mr. Malki says the decision will be based on what is best for Gulf Air's future route needs. "We have to take account of fuel, operating and maintenance costs as well as capital acquisition costs," he explains.

Gulf Air already decided to acquire two Boeing 767-300 ER airliners on a leased basis. The first will be delivered in June, and the second in November of this year. Further aircraft acquisitions are likely to reflect both lease and outright purchase, says Mr. Malki. He is hopeful that moves toward establishing a regional aircraft leasing organization

will be successful. Such a plan is being discussed under the auspices of the Arab Air Carriers Organization. Three or four financial institutions in the Gulf have already examined the idea and it is hoped that institutions outside the region with leasing experience will also get involved.



Ibrahim Al Malki, president, Gulf Air.

Following delivery of the first 767-300, Gulf Air will begin scheduled services to New York via London. Leaving Bahrain at 10 A.M. local time, passengers will arrive in New York at 8 P.M. the same day. Acquisition of the 767-300s is also expected to boost performance on Gulf Air's Far East routes, doing away with a number of technical stops now required on long routes.

The advent of new aircraft technology has other implications for Gulf aviation. As they start operating aircraft like the new Boeing 747-400, a number of airlines will be able to fly jumbo loads of passengers 16 hours onstop direct from the Far East to London, canceling the need for refueling stops.

Mr. Malki says the prospect of Fifth Freedom carriers withdrawing operations to the region does not overly alarm him: "On the one hand we are happy at the prospect of our own backyard being cleared up. On the other, we may have greater difficulties with reciprocal landing rights. However, the fact that over the years markets and routes have been created by airlines means they cannot disappear overnight."

Present trends give rise to optimism. Gulf Air carried some 2.6 million passengers in 1987 and is expecting a 10-12 percent increase this year.

"We see the passenger market holding and no further deterioration but the character of the market is changing," he said. "We are going to see a different type of operation in the future and Gulf Air is expanding its long-range routes to provide better services for its customers. Passengers increasingly reflect a white collar and technical clientele rather than manual worker traffic."

"We also envisage a higher volume of tourist traffic either to or from the region," he said. "Gulf Air has to change its operations accordingly to emphasize our business class facilities and we have improved our in-flight services."

That effort was recognized earlier this year with the presentation by the International Flight Catering Association of its prestigious Mercury award for excellence of in-flight service.

Gulf Air is also one of the few international airlines that has been accepted as a member of La Confédération de la Chaîne des Rôtisseurs, the gastronomic society.

The airline's reputation for service not only applies to passengers. For three years in a row Gulf Air has been voted best Middle East cargo carrier by readers of the British publications Air Cargo News International and British Shipper and Forwarder.

The Far East is likely to play an increasingly important role in Gulf Air's passenger and cargo operations. The airline is seeking to add Beijing, Tokyo, Seoul and Singapore to a network that already encompasses Hong Kong, Bangkok and Manila. However, a balance will be sought with European expansion adding new desti-

nations to those of London, Paris, Frankfurt and Athens. Possible candidates include Rome, Vienna and Geneva or Zurich, says Mr. Malki.

The New York operation, later this year, will represent the most dynamic expansion for Gulf Air in several years. In the long term, other routes in the United States will be applied for. Houston is understood to be one possibility.

A diversified concern, Gulf Air has significant growth prospects in other areas. It has a 40 percent shareholding in the \$100-million Gulf Aircraft Maintenance Company (GAMCO), which opened its new facility in Abu Dhabi in September. Already carrying out engineering maintenance work on Gulf Air's TriStar fleet, GAMCO aims to attract other airlines and eventually compete with the best and largest aircraft maintenance centers in the world.

Expansion is also envisaged for Gulf Air's helicopter operations center in Doha and for its hotel interests, which comprise shareholdings in Gulf hotels in Bahrain and Oman. Negotiations are under way to acquire a property in Bombay, and there is interest in seeking hotels in Europe.

But transportation remains Gulf Air's main occupation. Gulf Air's president points out that it is the only Arab airline dependent on its own resources, and has the confidence of banks and leasing companies behind it. The company's strategy, due to be agreed in the next few months, is likely to emphasize Gulf Air's status as a major force in regional and international aviation over the next decade.

— A. R.



Arad Fort, a popular tourist site (above); the new headquarters of the Directorate of Tourism and Archaeology (below).

Appealing to the Discerning Business Traveler

BAHRAIN was the first Gulf state to build up an infrastructure geared to the traveler. First-time visitors to the Gulf have often made the island the initial stop in their journey.

A passenger arriving at Bahrain Airport is soon awakened to the reality of a part of the Gulf that is outstanding for having created what may be the most sophisticated financial and communications center between London and Singapore.

A credit card call back to the office from the airport? No problem. A car with a telephone? Again, that is available. And in the hotel, direct international dialing will be the norm.

But, telephones and other advanced technology aside, Bahrain's past also is an attractive drawing card for the visitor.

Bahrain, often referred to as the 'Land of Immortality', has signs of habitation that date back to about 100,000 BC and much has

been carefully preserved and is now on view.

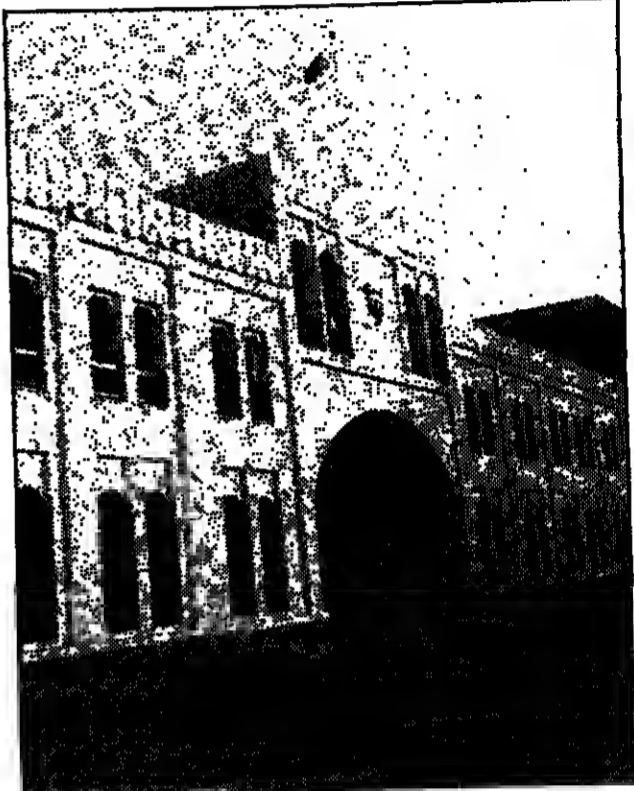
Fort, ancient monuments and buildings provide valuable information on the political, economic, social and cultural life of the bygone era. Of these, the Bahrain Fort is considered one of the most spectacular relics.

In addition, many archaeological excavations have turned up interesting artifacts from the past, which are now popular with the visitor.

The Arad Fort, located close to the airport, is another monument depicting a glorious past. Historians agree that the fort is an Arab structure, possibly built during the 16th century.

The hotel industry has made great strides in providing a relaxing, comfortable haven for visitors who are in Bahrain for pleasure or business.

The hotel industry has been purposefully encouraged by the government, though at first it was de-



signed to service the business travelers who came during the period of economic expansion.

The island's first five-star hotel was the Hilton, opened in the mid-1970s with 286 rooms. It has been joined by the 328-room Sheraton, 125-room Ramada, 120-room Delmon, 275-room Holiday Inn, 240-room Gulf Hotel and 384-room Regency Intercontinental.

Below the deluxe category are a number of more modest establishments, including the Al Jazira near the souq, Le Vendôme and Omar Khayyam.

Bahrain is anxious to further develop its poten-

tial for attracting visitors. The High Council for Tourism was set up three years ago to develop facilities, particularly with the aim of attracting more Gulf nationals to the island.

The opening of the causeway from Saudi Arabia has been a significant boost to attracting Saudi visitors. Bahrain itself has developed beach areas at Zallaq and Budaiya. But Bahrain does not seek to become a tourist haven. It seeks rather to provide hospitality and the best of amenities to the professional visitor, his family, and the discerning traveler.

— Anthony Richard and Stephen Victor

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EUROBONDS

Forecast on Treasuries Is Bad News for Eurodollars

By CARL GEWIRTZ International Herald Tribune

PARIS — If last week's news about the dollar and dollar interest rates were not enough to keep investors away from Eurodollar bonds, Salomon Brothers is giving investors additional reasons: Eurobond prices are likely to deteriorate as all dollar yields widen relative to the benchmark U.S. Treasury paper.

The investment bank expects U.S. interest rates to rise substantially this year, pushing the yield on long-term U.S. government bonds to 10 percent from the current 8.94 percent. That itself ought to keep investors away from the dollar sector, at least until the increase in yields has reached a plateau.

But the firm sees other factors at play. As government yields rise significantly, Salomon said, "investors will have less incentive to stay in higher-yielding, nongovernment bonds."

Accordingly, there will be moderate upward pressure on corporate spreads, yields relative to the benchmark level, "especially on lower-rated issues," the firm said.

Additional pressure on spreads will result from the increased volume of corporate bonds expected to hit the domestic U.S. market. Salomon estimates an additional \$2 billion to \$3 billion of quarterly volume as capital expenditures of U.S. companies accelerate this year to keep up with the export boom.

Finally, the declining trend of the currency will make it more difficult to sell all dollar bonds, but especially Eurodollars. As a result, the investment bank said, "Eurodollar bonds are likely to underperform similar credits in the domestic market."

Investors appear to have anticipated all this. Since the beginning of this quarter, few Eurodollar bonds have been issued and those that have been were for short periods.

Last week's issue for the European Community was a typical example. It has a life of only two years. (The EC is refinancing the final two years of a previous issue on which it was paying interest of 9 3/4 percent.)

SHORT MATURITIES remain popular because regardless of what happens to interest rates or spreads, investors are actually no risk since they get their cash back in two years. This proved to be a major attraction as bond prices fell last week and investors looked for the safety of short-term placement.

Where they are at risk, of course, is on the currency. But many institutional investors are obliged to keep a portion of their assets in dollars.

Where investors have a choice, many strategists are advising clients to buy French franc bonds. Although yields differ widely on whether the franc will be devalued this year, Salomon Brothers says franc bonds offer good value even if the currency is realigned within the European Monetary System.

In its April report on fixed-income strategy, Salomon notes that the franc currently is close to its EMS floor versus the Deutsche mark. "A realignment of central rates of 4 percent could leave the market rate between the two currencies only 1 to 2 percent below current levels," it said.

However, this potential currency loss is "more than offset by two factors: the higher yield resulting from the current 4 percentage point spread between the two markets, and capital gains resulting from an expected narrowing of yield differentials after the realignment."

"Stable bonds are also recommended, again for both the relatively high yield and potential currency strength. But investors need to be wary: Although most forecasters expect the currency to remain strong over the short term, it is expected to drop back later this year."

However, the Eurosterling issues marketed last week did not attract much support. All were considered to be aggressively priced. The split A/triple-B rating of American Brands was a handicap, and double A-rated American Express suffered from being a financial services company; the sector is not in favor now.

Italy's IMI Bank International had the most tightly priced issue, to yield 35 basis points over gilt. Its five-year notes carried a coupon of 9 3/4 percent, compared with 9 percent for American Brands and 9 1/2 percent for AmEx.

Although interest rates on Euroyen are lower than even the Deutsche mark, the anticipated appreciation of the yen against the dollar as well as the EMS currencies appeals to some investors.

Three five-year Euroyen issues were floated last week, with Sweden issuing 50 billion yen and Banque Francaise du Commerce Extérieur and Austria's Kontrollbank each raising 25 billion yen. Sweden was priced to yield 4.7 percent and the others 4.77 percent.

Sources report that Sweden swapped just over half of the proceeds into floating-rate dollars at a cost of 45 basis points. See EUROBONDS, Page 17.

Can Democrats Face Hard Truth on Economy?

By Paul Blustein Washington Post Service

WASHINGTON — Michael Barker didn't last long in his most recent job — eight months, to be exact. And therein lies an instructive tale.

In February, by "mutual agreement," Mr. Barker resigned as chief economist of the Democratic Leadership Council, an organization of moderate Democratic politicians. Young and headstrong, Mr. Barker, 36, had rubbed some of his colleagues the wrong way.

But his real sin was to urge that the council — and the Democratic candidates in the 1988 campaign — focus on what he feels is the cold, hard truth about the U.S. economy.

Americans face an inevitable, painful squeeze on their living standards in coming years because of the massive U.S. trade and budget deficits, and Democrats had better start being honest about it, Mr. Barker says. But top council officials did not like Mr. Barker's approach and, after numerous arguments, he was sent packing.

What happened to Mr. Barker is symptomatic of the way the economic issue is playing within the Democratic party.

As the Democrats head into the final stages of their presidential nomination process with the New York primary Tuesday, many of the party's leading economists are saying that Democratic politicians are ignoring their advice and are dancing around the economy's central problem — America's pattern of consuming, borrowing and importing too much while producing, saving and exporting too little.

These economists complain that most Democratic politicians, instead of advancing policies such as tax increases that would deal fundamentally with the country's problems, are concentrating on flashy-sounding proposals for government to unhook with the inner workings of industry in ways that would improve U.S. economic performance only



Michael S. Dukakis ... Likes 'micro' approach.



Bruce Babbitt ... Tax hike idea hurt him.



Robert Solow ... Reconciling two camps.

modestly and might even be counter-productive.

"The real economic problems of this country aren't sexy. We've been overspending. To do anything about that, you've got to do some painful things, including cutting consumption," said Charles L. Schulze, a Brookings Institution scholar and the former chief economist to President Jimmy Carter. He added glumly: "Who the hell wants to campaign on that?"

The risk of failing to address such issues, many analysts contend, is that the next president will be elected without a popular mandate to take the sorts of

strong measures that are required. Michael S. Dukakis, in particular, "is not really building a consensus to do anything," said Frank Wykoff, an economics professor at Pomona College who specializes in the politics of economic issues.

At stake is more than the old question of whether a Democratic candidate ought to endorse a big tax hike and risk suffering the electoral fate of Walter F. Mondale, the former vice president, or Bruce Babbitt, the former governor of Arizona. Behind the debate lies a basic disagreement

See DEMOCRATS, Page 16

Motorola's Chip Will Bolster RISC Design

By John Markoff New York Times Service

NEW YORK — Motorola Corp. is introducing a powerful new microprocessor Monday, adding momentum to a process that experts say will dramatically lower the cost of computers while increasing their power.

"We're entering the next technological breakpoint," says Murray Goldman, senior vice president and general manager of Motorola's Microprocessor Products Group in Austin, Texas.

Motorola is to announce that more than 20 companies are backing its 88000 RISC chip, including Data General, Stratus Computer Inc., Tektronix Inc. and Convergent Technologies Inc.

Motorola's chip will compete with those of several other companies that have begun using the reduced instruction set computer, or RISC, approach.

The new concept involves radically streamlining the microprocessor, the heart of the personal computer and the driving force behind the electronics industry. By making a simpler but faster microprocessor, engineers are rejecting more

than two decades of design practice and seeking an alternative to the growing complexity of computers.

The RISC design approach eliminates many of the instructions built into the microprocessor and instead processes data by performing simpler steps repeatedly at faster speeds. The result is greater computing power at lower costs.

RISC has quickly become the strategic tool for computer designers. Today every major U.S. computer maker has either introduced or endorsed a computer based on RISC or is developing a prototype.

The RISC concept is a dual design approach. One aspect involves reducing and simplifying the number of data processing functions that a microprocessor — the famed computer-on-a-chip — has built into its circuits. The other involves streamlining the execution of instructions performed by the electronic components embedded in the chip. By carefully tailoring the programs that tell the microprocessor what instructions to use, dramatic increases in computational speed result.

Desktop RISC-based machines from Sun Microsystems Inc. of Mountain View, California, and MIPS Computer Systems Inc. of Sunnyvale, California, now have more processing power than the most powerful minicomputer designs of several years ago.

The Motorola announcement follows introductions of RISC microprocessors and computers from companies such as Sun, MIPS, IBM, Intel Corp., Fairchild Semiconductor Corp., Advanced Micro Devices Inc., Hewlett-Packard Co., and Apollo Computer Inc.

Apple Computer Inc. and the Digital Equipment Corp. are two major computer companies that have not adopted RISC, but both have research projects under way.

Sun's SPARC chip has gained the endorsement of some computer makers, including American Telephone & Telegraph Co., Xerox Corp. and Unisys Corp., and some chip makers, including Fujitsu Ltd., Bipolar Integrated Technology, Cypress Semiconductor Corp. and LSI Logic Inc.

The standard industry measure is MIPS, or millions of instructions per second. DEC's VAX 11-780, which does not use RISC technology, is generally rated at 1 MIPS. The original Sun SPARC chip is rated at 10 MIPS, Motorola's rates is 88000 at 17 MIPS and a new version of MIPS Computer's chip reportedly reached 20 MIPS.

Galloping U.S. Data Suggest Urgency of Corraling Demand

By Carl Gewirtz International Herald Tribune

PARIS — The vital signs of the U.S. economy, which appeared to fade last October, are now pulsing with a disquieting vigor.

This news, reflected in reports last week from Washington of strong retail sales, a rising trade deficit and sharply higher wholesale prices, exposed the danger that too much activity can be as harmful as too little.

The reaction of financial markets was menacing. The dollar came under sharp attack, requiring massive official intervention before it could be stabilized. Prices of dollar bonds tumbled, lifting market interest rates, and U.S. stock prices wobbled.

The events shattered the complacency that had set in following the narrow escape from financial crisis in October, and raised fears that a sickening replay was about to unfold.

Economists agree that corrective action is urgently needed. But the proposed remedy — higher U.S. interest rates, a still lower value of the dollar, or a combination of the two — will work only if it succeeds in restoring confidence that a healthier economic environment is in the offing.

The "too much activity" troubling markets is the level of domestic demand. U.S. retail sales in March rose 0.8 percent, about double what had been expected, and analysts estimate that consumer spending is

rising at a 2 percent rate this year, double the pace of last year.

"Higher consumer demand," said Giles Keating, economist at Credit Suisse First Boston, "means widespread capacity problems, worsening trade, and weakness in the dollar, the Dow and dollar bonds."

The dollar did fall, and stock and bond prices tumbled, following news that the U.S.

States at the present time, a sustained improvement in the foreign balance can be achieved only through an appropriate reduction in domestic absorption," the fund said in its annual world economic outlook report.

A meaningful decline in the trade deficit is an essential ingredient to restoring confidence. The fall is needed to offset the rising interest payments made to foreign holders of U.S. government debt. These two elements are the major factors in the current-account deficit, which the United States must finance from sources outside the country.

The IMF's newest forecast puts the U.S. current-account deficit by the end of next year at \$134 billion — down \$26 billion from last year's record, but \$29 billion higher than projections in December by the Organization for Economic Cooperation and Development.

Private economists are less sanguine. Salomon Brothers, in a report prepared before the trade figures were released last week, projected a much gloomier 1989 number of \$157 billion, virtually unchanged from last year's \$160.7 billion.

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See DEMAND, Page 17

After Strike, Aeroméxico Declares Itself Bankrupt

Compiled by Our Staff From Dispatches MEXICO CITY — The state airline Aeroméxico has filed for bankruptcy after a four-day strike by ground staff that cost the company an estimated \$7 million, according to the Transport and Communications Ministry.

A statement announcing the company's decision Friday said the move would ease the reorganization of Mexico's air transport.

"Aeroméxico's declaration of bankruptcy opens new and broader avenues for the recovery of the Mexican air transportation system," the ministry said.

The decision will affect about 7,500 jobs at the airline, whose financial situation has been deteriorating steadily. Government subsidies have averaged \$106 million annually in recent years.

The ministry said that Aeroméxico's collapse resulted from a combination of a national economic crisis, administrative problems and union demands.

The airline put 13 of its 45 jet aircraft, five DC-8s and eight DC-9-15s, on sale earlier this month and cut back on domestic and international flights. Unions responded Tuesday with the strike, arguing that the cuts would cost up to 3,500 jobs. The strike forced Aeroméxico to cancel all 223 of its daily flights.

has been suspended pending the company's expected sale to private interests.

Total assets of Aeroméxico at the end of the 1987 were estimated at about \$300 million. (Reuters, UPI)

Aeroméxico shares domestic routes with Compañía Mexicana de Aviación, or Mexicana, which is 58 percent owned by the government. Trading in Mexicana shares

TAIPEI — Taiwan's gold reserves rose to a record of 9.88 million tronyouans at the end of February, from 8.52 million in January and 5.58 million a year earlier, the central bank said Saturday.

A bank official attributed the increase to rising gold imports, mainly from the United States, since last October.

"The increased imports will simply help reduce our foreign exchange holdings," he said. Taiwan's foreign exchange reserves have fallen to \$74.4 billion from a record \$76.7 billion at the end of December.

But economists and foreign bankers said the increase in gold imports aimed to reduce Taiwan's trade surplus with the United States. The surplus shrank to \$1.97 billion in the first quarter of 1988 from \$3.61 billion a year earlier.

Currency Rates

Table with columns for Country, Currency, and Rate. Includes entries for Australia, Canada, France, Germany, etc.

Table with columns for Currency, 30-day, 60-day, 90-day, and 1-year rates. Includes entries for Canadian dollar, Swiss franc, etc.

Table with columns for Currency, 30-day, 60-day, 90-day, and 1-year rates. Includes entries for Japanese yen, etc.

Table with columns for Currency, 30-day, 60-day, 90-day, and 1-year rates. Includes entries for British pound, etc.

Table with columns for Currency, 30-day, 60-day, 90-day, and 1-year rates. Includes entries for Hong Kong dollar, etc.

Taiwan Says Gold Reserves Rise to Record

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March 18, 1988

Last Week's Markets

Table with columns for Stock Indexes and Money Rates. Includes entries for United States, DJ Industrials, etc.

ELOF HANSSON THE GLOBETRAIDER

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New International Bond Issues

Compiled by Aimee Potter Hardon

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price and week, Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Equity-Linked.

Salomon Blames Index Funds in Dow's Drop Last Thursday

By Anise C. Wallace

New York Times Service. NEW YORK — One of the largest U.S. stock index arbitrage trading firms has blamed stock-index fund managers for almost half of the steep decline in the Dow Jones industrial average on Thursday.

Salomon Brothers, an active index arbitrage trader, asserted Friday that the Dow would have declined only 58 points on Thursday instead of 101.46 points if index funds had not sold stock to rebalance their portfolios.

But index fund managers and brokers who trade with them vigorously disputed Salomon's analysis, which was issued in a news release. "To say that an entire market of trillions of dollars is being affected by a few hundred million dollars is really absurd," said Jeffrey L. Skelton, vice chairman of Wells Fargo Investment Advisor, which oversees \$35 billion in index fund accounts for pension funds.

One broker who trades almost exclusively with index funds said he saw very little evidence of portfolio rebalancing Thursday. Other traders, however, agreed that the change in the index could have touched off index fund selling. But they speculated that Salomon was trying to shift attention from its role as an index arbitrage trader.

Mr. Salomon's news release said that based on "complex calculations," Mr. Birinyi and Keith Miller, a research analyst, concluded that the Dow, "based on the amount of selling that occurred in Thursday's market, should have only been down 58 points."

EUROBONDS: More Bad News for Dollar Sector

(Continued from first finance page) While its 6 percent coupon was a substantially higher yield than on other sovereign paper, Malaysia paid less of a premium on this issue than it has on previous occasions.

In the ever-popular equity-linked market, Japanese issuers continue to cut coupons without having much effect on the premium prices at which the paper is traded.

Salomon especially likes Japanese pharmaceuticals, semiconductor producers and companies likely to benefit from the boom in capital investment: Mitsubishi Heavy, Yokogawa, Fanuc and Komatsu.

For Hungary, Tighter Loan Terms

By Carl Gewirtz. International Herald Tribune. PARIS — Hungary, which reportedly is close to arranging a \$350 million standby loan from the International Monetary Fund in exchange for tighter control over its budget deficit, entered the international credit market last week seeking \$200 million.

Reflecting creditors' concern about a continuing steep rise in Hungary's foreign debt and domestic economic problems, the terms on the loan represent a substantial tightening over what the country paid last year.

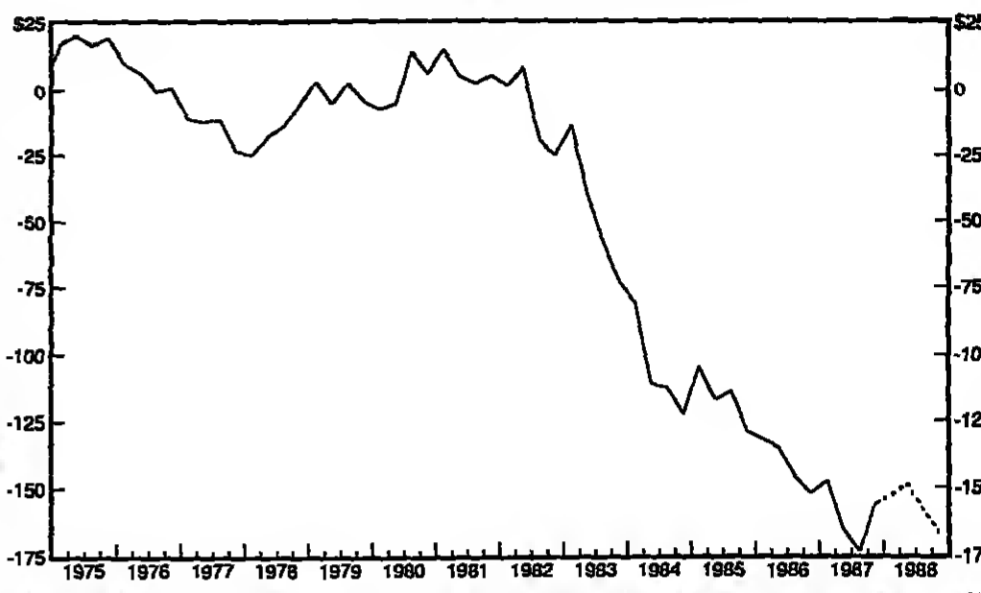
In 1987, Hungary paid 1/4 point over Libor for an identical sum, also for eight years, and last year it paid 3/4 point over Libor for a loan of \$400 million.

DEMAND: Still Galloping in U.S.

(Continued from first finance page) about trade improvement will spark severe tests for the dollar, discouraging private foreign investors from buying dollar assets needed to finance the current account deficit and causing interest rate differentials between the U.S. and other markets to widen.

The IMF recommendation for curbing demand is further action to reduce the U.S. budget deficit. But there is no hope of that in the seven months preceding the presidential election. As a result, private analysts project a scenario of rising U.S. interest rates and a falling dollar.

U.S. Current Account Balance



Salomon Brothers projects that the current-account deficit will worsen in the second half of 1988.

MARKETS: To Jumpy Traders, Good U.S. Economic News Looks Bad

(Continued from Page 1) growth of more than 3 percent this year, against well under 2 percent in November.

much as they can produce, and can put prices up, profits go up and there is no great incentive to keep wages down," Mr. Foley said.

inflation expectations, particularly because those who were forecasting recession had pitched their inflation forecasts very low. The change in expectations will be even greater if oil and commodity prices continue to rise, Mr. Horne points out.

"dollar sector" close to full capacity, it will be harder to increase exports, or produce more American goods to compete with the imports.

But higher interest rates would put the brakes on the U.S. economy, and the feared recession, or at any rate a slowdown, would be back in the cards.

IMF: Moving Toward Major Role in Eastern Europe

(Continued from Page 1) informal Polish program will lead to an IMF standby loan and a restructuring program over several years from next year, officials say.

The three new programs are the first the IMF has handled in the region since Yugoslavia ended its standby program two years ago, and they represent the largest commitment the agency has yet made to Eastern Europe's debt problems.

Communist Party apparatus — as ruler of their economies. "The reason for our deeper cooperation with the IMF is not based on credits," Razyly Samoilik, Poland's minister of finance, said in a recent interview.

experts said. Though the nominal goal of the fund is payments balance, the measures it recommends, like cuts in subsidies, often coincide with the steps, necessary in communist countries to create a functioning market.

In Yugoslavia, where the combination of a weak federal government and bitter rivalries between six constituent republics has rendered useless repeated efforts to halt 150 percent inflation, the government of Prime Minister Branko Mikulic appeared to see the IMF as a necessary evil.

Front-end fees range up to 60

Treasury Bonds

Table with columns: Maturity, Bid, Ask, Yield, etc. for Treasury Bonds as of April 15.

U.S. Consumer Rates

Table with columns: Year, Rate, etc. for U.S. Consumer Rates as of April 15.

Euromarts At a Glance

Table with columns: Eurobond Yields, Weekly Sales, and Libor Rates.

BSI BUSINESS SCHOOL LAUSANNE SATURDAY M.B.A. advertisement.

LEICOM advertisement for shareholders meeting.

PRI/TECH advertisement for shareholders meeting.

SPORTS

SIDELINES

McEnroe Wins First Tourney in 19 Months

TOKYO (AP) — American John McEnroe, winning for the first time in a year and a half and playing in his first tennis tournament in seven months, trounced Stefan Edberg of Sweden in Sunday's final of the Japan Open.

Ethiopian Sets Marathon Record of 2.06:50

ROTTERDAM (AP) — Ethiopian Belaney Densimo set a world record in winning a marathon here Sunday, covering the 42.195 kilometers (26 miles, 385 yards) in 2 hours, 6 minutes and 50 seconds.

Couples Ahead of Frost by 1 in Heritage Golf

HILTON HEAD ISLAND, South Carolina (AP) — Fred Couples shot a 3-under-par 68 to hold off South African David Frost and take a one-shot lead after Saturday's third round of the Heritage Classic golf tournament.

For the Record

Perris Valley, a 7-year-old ridden by Brendan Sheridan, won Saturday's Grand National steeplechase in Fairyhouse, Ireland. The 12-1 shot moved ahead of Captain Batrac in the closing strides to score by three-quarters of a length.

Solution to Friday's Puzzle. A grid with words filled in: MAINE, COAT, TOWNS, OXEN, ARBOR, OHRE, LOAD, BELAY, MINE, ENROLL, EDUCATED, ROES, SKATE, CONSIDER, YEOMAN, ALIEN, GATUN, EVE, RINO, OUMAS, ETAL, AVE, GREEK, TRAIL, TITANIUM, TINSEL, LEVADE, TEAT, SWEAT, THER, HARO, LINT, CROWN, IJOOR, AMTA, KOREA, SITE, BIHR, SETH, MOLIO.

VANTAGE POINT/George Vecsey

Take Me Out to the Balk Game...

NEW YORK — Daddy, Daddy, can we go to another ball game real soon? I liked the hot dogs and the soda and the home run and the lights on the scoreboard, but what I really liked best, Daddy, was when the man in the blue uniform waved his arm and let the runner take the next base.

skillful of pitchers (who happened to be clustered on the woeful New York Mets). By Memorial Day it was all forgotten, and recidivist pitchers went right back to their life of crime.

Baseball has a tendency to shoot itself in the foot, like Inspector Clouseau on a case.

Baseball is the best spectator sport ever invented, but it has a marvelous tendency to shoot itself in the foot, like Inspector Clouseau on a case. The diluting of the strategic inner game by the designated hitter is well documented. Expansion has robbed the American League of rivalries by scheduling more games outside a division than within it.

in seven games, all of which proves — what? Manager Herzog is out of upset about the epidemic of balks — 136 in 122 games going into the weekend's games, compared to only 30 at the comparable point last year, according to the balk officer on duty at the Elias Sports Bureau in New York.

The good news is that with all the emphasis on balks, Herzog has not had time to inspect Howard Johnson's bats for their faded cork linings. Of course, with Johnson hitting only .138 going into Saturday, why bother?

There will be plenty of chances for the Mets and Cardinals to get legalistic or snappish. All teams play each other 18 times in their own division in the National League, producing five legitimate rivalries.

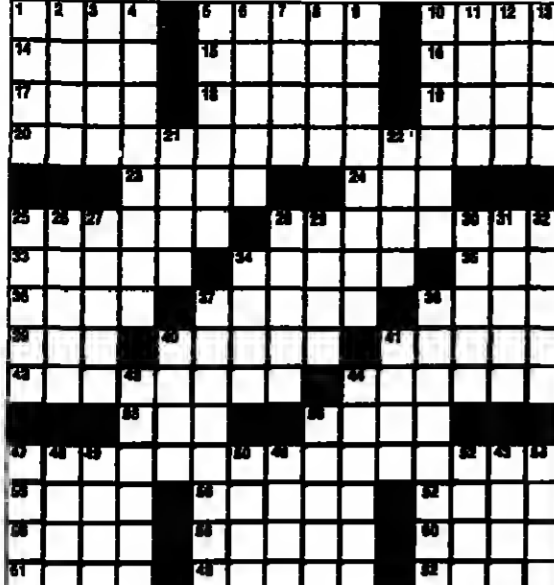
What Met fan can forget how the vibrant young Pirates terrorized the Mets last September? Or what Mike Schmidt and Ozzie Smith have said about the darling Metropolitans?

The American League, with its cumbersome 14 teams and equal schedules, does not create the same intense familiarity. Now there is talk of interleague play, presumably because the insatiable masters of television want a new diversion.

Baseball, not having confidence in its own history, its own appeal, will listen to the Sportin' Life proposal. What the heck — a few extra dollars — what can it harm?

The proper place for the Mets to meet the Yankees is in a World Series. Or in spring training, if George Steinbrenner can get over his suit. Or in the dormant Mayor's Trophy Game. And in the imagination of New York fans.

The end result of interleague play will be that one day Met fans will wake up and, instead of playing the White Rat and the Cardinals, the Mets will be playing the Seattle Mariners, something to be avoided at all costs. But don't expect the people who run baseball to understand that. They're too busy riding out balk-mania.



ACROSS 1 Shadowbox 5 Dunces 10 Asian nanny 14 Kind of duck 15 Gallagher's vaudeville partner 16 Comedian Jay 17 Ballplayer 18 Inasmuch as 19 Famed suffragette 20 Call it quits 23 Captains' records 24 Was a candidate 25 Demonstrated 28 Fetered out 33 Batches 34 Auctioneer's warning 35 A feast — famine 36 Elderly 37 Fetch 38 Serve the coffee 39 Buddhist sect 40 Set straight 41 Something worthless 42 Supposing 44 Bed linen

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DENNIS THE MENACE



HE CAN SMELL BETTER THAN WE CAN, BUT HE USUALLY SMELLS WORSE.

JUMBLE

Jumble puzzle with words: URPE, RAFOL, WISDON, THAGUT. Instructions: Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

WEATHER

Table with weather forecasts for Europe, Asia, Africa, Latin America, North America, Middle East, and Oceania. Columns include location, high, low, and conditions.

PEANUTS



BLONDIE



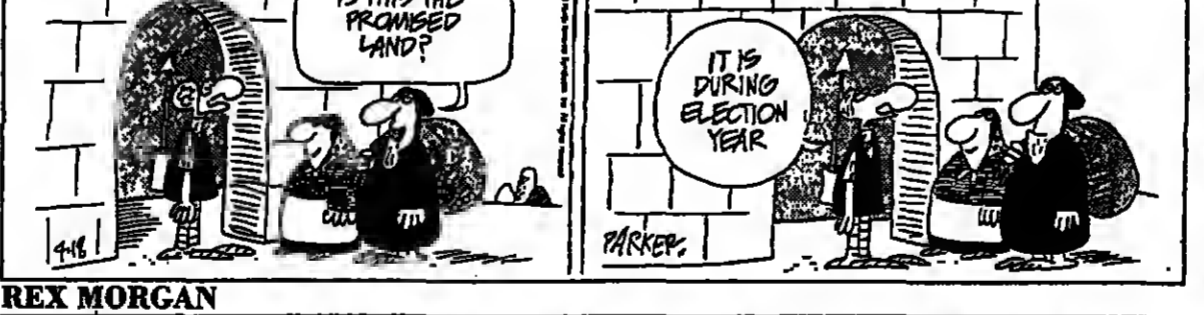
BEEBLE BAILEY



ANDY CAPP



WIZARD of ID



REX MORGAN



GARFIELD



WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

After a buoyant start to the week, sentiment on the Amsterdam Stock Exchange suffered a reversal Thursday on news of the big U.S. trade deficit for February.

The ANP-CBS general index finished Friday at 247.3, down from 249.6 the previous week. Volume for the week was 7.48 billion guilders, up from 6.027 billion guilders.

Frankfurt

Prices on the Frankfurt Stock Exchange closed lower last week, failing to maintain an early advance. Prices moved downward Thursday and Friday following a report of a big U.S. trade deficit, and the Commerzbank stock index finished Friday at 1,386.3, down 9.9 from the previous week's close of 1,396.2.

Volume on the eight West German stock markets almost doubled for the week to 14.19 billion Deutsche marks, against 7.58 billion the previous week.

Department stores were among the best performers, with Herten adding 2 and Karstadt 18. Autos were irregular. Daimler went down 1. Volkswagen fell 2.90 while BMW gained 13. Investors reacted negatively to major banks' announcements of mediocre results for fiscal 1987. Dresdner Bank lost 0.30, Commerzbank 5, and Deutsche 7.50.

Hong Kong

The Hang Seng Index shed 20.92 points in active trading on the Hong Kong Stock Exchange last week. The indicator swung from its highest level since the October stock market collapse into an 85-point tailspin.

The key market barometer finished Friday at 2,598.95 points, against 2,619.87 a week earlier. The Hang Seng had risen 75.9 points the previous week.

Average daily turnover rose to 1,506 billion Hong Kong dollars from the previous 1,062 billion Hong Kong dollars. After a net gain of 16.07 points Monday and Tuesday, the Hang Seng rose Wednesday to 2,671.24, its highest level since October. Dealers said active trading was fueled by a solid performance on overseas markets. The upward move continued Thursday, with the index gaining 12.89 points, but it was cut short Friday when the Hang Seng plunged 85.18. Dealers said the frenzied selling was triggered by the sharp fall Thursday on Wall Street.

London

The London Stock Exchange had an extremely irregular week, with shares buffeted by U.S. news. The Financial Times-Stock Exchange index of 100 shares closed at 1,778.60, barely changed from 1,779.70 a week earlier.

The recent cut in British interest rates and firmer crude oil prices boosted sentiment Monday as the new trading account got under way. On Tuesday, the market was dull and closed slightly down, and there was a small rise Wednesday.

On Thursday, after a good start, the market turned sharply lower following publication of poor U.S. trade figures, and the exchange recorded one of its biggest falls since the beginning of the year.

On Friday, despite a nervous opening that saw shares marked sharply lower after Wall Street dropped by nearly 5 percent overnight, stocks trimmed some of their losses. Takeover speculation surrounding Rowntree benefited the food sector. Jacobs Suchard of Switzerland had grabbed a 14.9 percent stake in Rowntree during a dawn raid on Wednesday, and the British company's shares soared.

Major exporters, which had advanced at the beginning of the week because of a weaker pound, were again hurt by a fall in the dollar after publication of the U.S. trade data.

Milan

Prices on the Milan Bourse declined last week as trading focused on the big De Benedetti and Ferruzzi-Montedison groups. The Comit index declined to 5,170, against 5,245.59 the previous Friday.

Volume was an average \$160 million a day, up from the previous week. De Benedetti group shares, especially Olivetti and Cofide, were popular early in the week, but the financier's failure to win control of Societa Generale di Belgique SA on Thursday cancelled much of the gain. Olivetti finished the week 1.09 percent higher, and Cofide gained 3.58 percent. Sabaudia lost a hefty 9.55 percent, and CIR 7.51.

Ferruzzi-Montedison Group shares rose rather regularly, with Montedison adding 2.95 percent on foreign buying.

Paris

Prices on the Paris Bourse posted a healthy gain last week despite a marked fall after reports on the U.S. trade deficit and a sharp rise in U.S. wholesale prices.

The CAC index finished the week at 296.8, below the week's high of 305 at Thursday's close but up from 287.4 the previous Friday.

Analysts said the solid Paris performance resulted from the return of foreign investors, some good performances on other exchanges, especially in Tokyo, encouraging 1987 earnings reports, and an emphasis by French presidential candidates on the importance of helping business.

The auto sector was particularly strengthened by a sharp increase in French vehicle registrations during the first quarter.

Singapore

Sellers dominated trading last week on the Singapore stock market, with the Straits Times Industrial Index falling 14.1 points to close Friday at 933.44. Average daily turnover was 19.06 million units.

On the last day of trading Friday, the key market barometer lost a hefty 23.67 points, wiping out a gain of 9.57 recorded during the first four days.

Tokyo

Prices on the Tokyo Stock Exchange continued their advance last week, with the Nikkei stock average, topping the 27,000 level Thursday before closing on the week at 26,893.57 points. It rose 144.68 points for the week.

Trading was moderate, with about 922 million shares changing hands daily against 1.22 billion the previous week. The value of stock traded averaged 1,062 trillion yen, down from 1,158 trillion.

The Nikkei average lost a substantial 217.78 points Friday, its first drop in five sessions. The fall was triggered by tumbles Thursday on major exchanges because of the unexpected widening in the U.S. trade deficit in February.

But many analysts said Friday's fall was needed to cool an overheated market. The Nikkei average had jumped 446.77 points the previous week.

From Monday through Thursday, the market barometer of 225 blue chips set a new record each day. Its finish of 27,111.55 Thursday marked the first time the stock average had topped the 27,000 level.

The TSE composite index of all common stocks listed on the first session finished at 2,173.80 points. That represented a fractional 0.34 point gain from the previous week.

Analysts said the TSE index's small rise showed that high-priced stocks in the electric power, financial and telecommunications sectors have not recovered their full strength since the October market collapse. The TSE index hit a record 2,258.56 on June 11.

Zurich

The majority of Zurich issues ended the week higher as the market displayed resistance to the plunge Thursday on Wall Street. The Credit Suisse index ended the week at 455.6, up from 445.9.

Volume was low most of the week. The banking sector moved lower, as Union Bank of Switzerland lost 100 to 3,000 francs, Swiss Bank Corp. 2 to 350, and Credit Suisse 70 to 2,290.

Pope Urges Moderation In Business Acquisitions

VERONA, Italy — Pope John Paul II warned financiers on Sunday against trying to ensure "domination" by excessive purchases of holdings in other businesses.

Speaking to a business group in Verona, northern Italy, the pope criticized a striving for "financial holdings making it possible to enjoy new forms of property that are ever more extensive and ever more dominating.

كازمان الاحول

SPORTS

IAAF Threatens Olympic Ban of Britain National Group Given 30 Days to Bar Budd From Running for at Least Year

LONDON — The International Amateur Athletic Federation, in an unprecedented act, has moved to bar runner Zola Budd from all international competition for a year, and has threatened, if she is not, to ban all British athletes. That would keep the British team out of the Olympics this fall. In a unanimous decision, the IAAF's supreme council recommended Saturday that the British Amateur Athletic Board suspend Budd, 21, for at least one year because of her ties to South Africa. The council's resolution included that British officials called a "veiled threat" — the IAAF gave the board 30 days to accept the recommendation and informed that if the board does not take "necessary action," the IAAF would suspend the entire British federation. "It is a veiled threat," said John Jones, who placed fourth in Sunday's London Marathon and automatically qualified for the British Olympic team. He said Budd "should be backed all the way. I'm willing to take suspension."



Zola Budd

LONDON (AP) — Zola Budd, the 21-year-old South African runner, was suspended from all international competition for at least a year by the International Amateur Athletic Federation (IAAF) Saturday. The IAAF's supreme council recommended Saturday that the British Amateur Athletic Board suspend Budd, 21, for at least one year because of her ties to South Africa. The council's resolution included that British officials called a "veiled threat" — the IAAF gave the board 30 days to accept the recommendation and informed that if the board does not take "necessary action," the IAAF would suspend the entire British federation.

Phils Loss 7th in Row, to Expos

Compiled by Our Staff From Dispatches MONTREAL — Andres Galarraga drove in three runs with a homer and a single Sunday as the Montreal Expos defeated the Philadelphia Phillies, 5-2, and sent them to their seventh straight defeat. Pascual Perez pitched seven innings, allowing four hits while striking out eight, to help the Expos sweep the three-game series. Andy McGaffigan worked the final two innings to get his first save, allowing no hits. With the score 2-2, Herm Wainningham led off the home fifth with a single off reliever Bill Dawley and, two outs later, Galarraga hit his second homer this season. Dawley came in when starter David Palmer, who homered in the top of the fifth, left the game with a muscle spasm in his right arm before the Expos' half of the inning began. Astros 5, Reds 3: In Houston, Nolan Ryan struck out nine and broke a tie with a two-run single against Cincinnati. Ryan, who has not pitched a complete game since April 25, 1986, against Cincinnati, went eight innings, allowing seven hits. He got off to a shaky start when Barry Larkin hit the second pitch of the game for his first homer this year. With the score 2-2 in the second, Mark Bailey singled and Chuck Jackson doubled. Ryan then poked a single off shortstop Larkin's glove, scoring both runners. Ryan later scored on Danny Jackson's second walk of the inning. Indians 4, Orioles 1: In the American League, in Baltimore, Mel Hall and Brock Jacobi each got three hits for Cleveland while

John Farrell was holding the Orioles to four hits for 8 1/2 innings, helping extend their season opening losing streak to 12 games, one short of the major league record. The Indians, who won for the 11th time in 13 games, are off to their best start since 1966. They have won five in a row. Hall, who went three-for-four with two doubles and an RBI, has 14 hits in his last 30 at-bats. Baltimore's Cal Ripken went zero-for-four; he is hitless in his last 29 at-bats. The Indians broke a 1-1 tie with two runs in the fourth. The first came on consecutive doubles by Jacoby and Hall. Hall took third when right fielder Joe Orsulak misplayed the ball off the wall and scored on Corey Snyder's sacrifice fly. Brewers 6, Yankees 3: In Milwaukee, Joey Meyer homered for his first major league hit while Robin Yount and Rbn Deer also homered against New York. Ted Higuera yielded only an unearned run in the third until Roberto Kelly got the Yankees' first extra-base hit, a one-out double in the ninth. Mike Pagliaro followed with his third homer this year. Meyer's solo homer just ended the right-field foul pole inside a 1-1 tie in the fourth, then he doubled and singled. Yount and Deer hit their homers, the fourth for each, in a three-run fifth off John Candelaria. Candelaria was ejected from the game after he hit the Bill Schroeder in the back with a pitch immediately after Deer's 430-foot homer gave the Brewers a 3-1 lead. The Yankees' designated hitter, Jack Clark, struck out three times. He now has fanned in eight of his last 11 at-bats. Red Sox 15, Rangers 2: In Boston, Mike Greenwell drove in a career high six runs with a homer, two singles and a ground out against Texas. Rick Cerone, acquired as a free agent Thursday, had four hits and Jim Rice and Marty Barrett each had three of the team's 20. Staked to a 10-0 lead in the first two innings, Bruce Hurst breezed to victory with a four-hitter. He struck out eight and walked three in his first complete game this year. Blue Jays 2, Twins 0: In Toronto, Mike Flanagan and Tom Henke held Minnesota to seven hits and Kelly Gruber figured in both runs as his team ended a four-game slide. The Twins' Les Straker, who has not won on the road since July 9, allowed seven runs in seven innings. Tigers 8, Royals 6: In Detroit, Chet Lemon extended his hitting streak to all 10 Tiger games, driving in two runs and scoring four against Kansas City. Three of the Royals' four hits off Jeff Robinson were bases-empty homers, two by George Brett and one by Jamie Quirk. Brett also drove in a run in the eighth, with a single and had three RBIs. Brett's fourth-inning homer, his third this season, cleared the roof in right field, the first ball hit out of Tiger Stadium since Kirk Gibson did so against Milwaukee's Chris Bosio on Sept. 10, 1986. Of the 22 homers hit out of the stadium, all but two were by left-handed batters.

SCOREBOARD

Baseball

Friday's and Saturday's Major League Line Scores

Table with columns for team names and scores for Friday and Saturday games.

Baseball

Major League Standings

Table showing league standings for American League and National League.

Tennis

Table listing tennis tournaments and results.

SCOREBOARD

Basketball

NBA Standings

Table showing NBA standings for Eastern, Western, and Pacific Divisions.

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Table listing European soccer matches and results.

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Brewers Rout Yankees to End Slide; Orioles Lose Their 11th, in the 11th

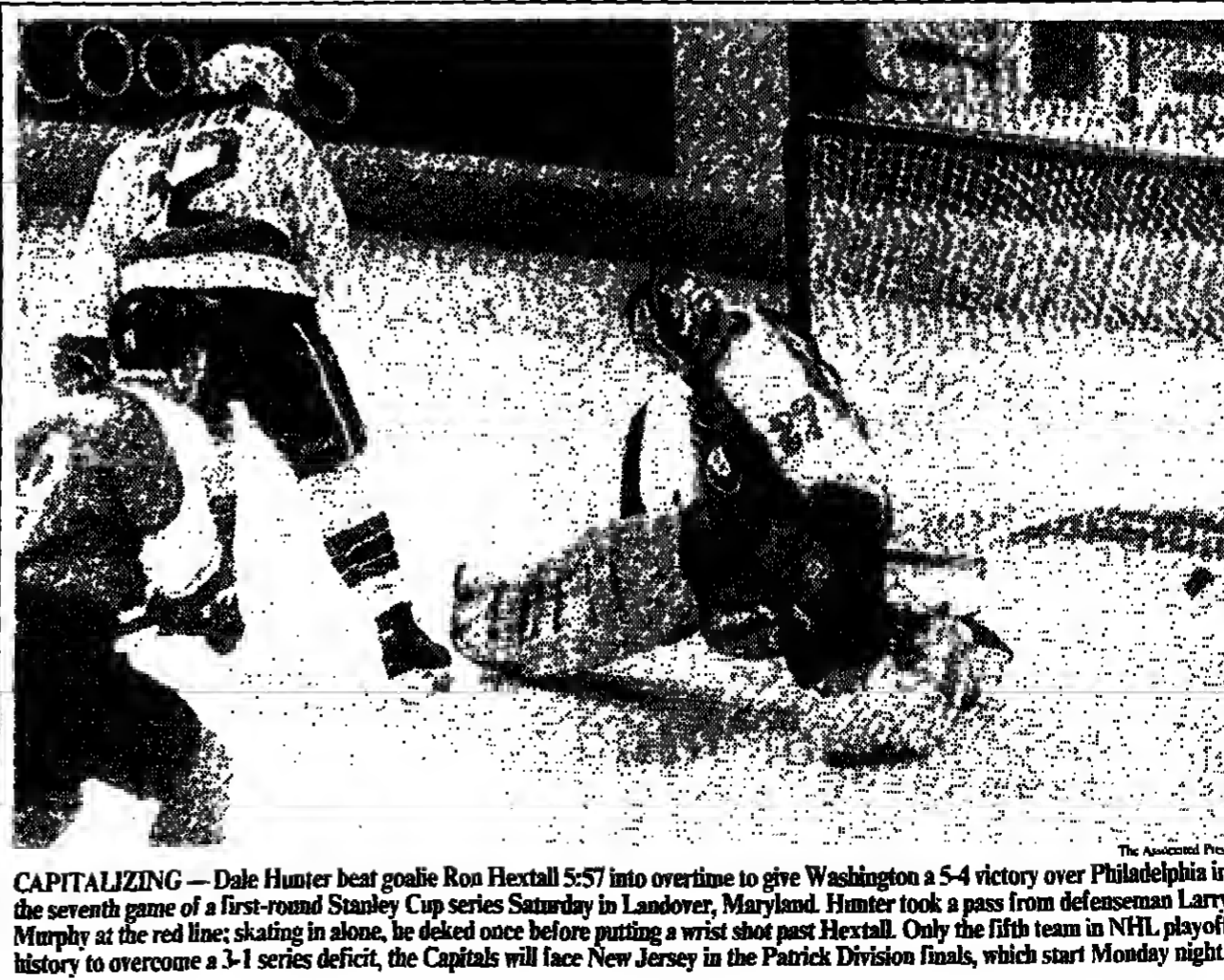
Compiled by Our Staff From Dispatches MILWAUKEE — Greg Brock hit a three-run home run and Robin Yount homered with one on Saturday to help the Milwaukee Brewers end a seven-game losing streak with an 8-2 victory over the New York Yankees. Chris Bosio gave up both runs on four hits and three walks in seven innings. Chuck Crim pitched the eighth and Dan Plesac struck out six in the ninth. "It's a big win for us. We needed to get over the hump," said Bosio, who is 2-1. "I would have taken one run. It had been frustrating. We really hadn't played that badly."

more, Willie Upshaw singled Cory Snyder in from second base with two out in the 11th as Cleveland handed the Orioles their 11th loss since a victory this season. The major league record is 13, shared by the 1904 Washington Senators and the 1920 Detroit Tigers. White Sox 5, Athletics 1: In Oakland, California, rookie right-hander Melido Perez of Chicago held the hard-hitting A's to three singles for seven innings, striking out eight. Ken Williams drove in two runs with a misplayed triple in the second inning as the White Sox won their sixth straight at Oakland Coliseum. Mariners 7, Angels 6: In Seattle, Jim Presley's two-out single in the ninth capped a two-run rally that ended California's four-game winning streak. Dodgers 7, Braves 4: In the National League, in Los Angeles, Pedro Guerrero singled twice and doubled, driving in four runs, as Atlanta set a modern National League record with its 10th consecutive loss at the start of a season. The previous record was held by four teams, including the 1919 Braves, the 1962 New York Mets and, most recently, the 1983 Houston Astros. Mets 6, Cardinals 4: In New York, Gary Carter's two-run homer in the eighth beat St. Louis, then Howard Johnson, who had 36 home runs last year, hit his first of 1988. Reds 8, Astros 2: In Houston, Eric Davis went three-for-five, driving in two runs and scoring two for Cincinnati. Pirates 4, Cubs 0: In Chicago, Doug Drabek pitched a five-hitter and R. J. Reynolds hit a three-run homer for Pittsburgh. Expos 2, Phillies 1: In Montreal, Tom Foley singled Andres Galarraga home from third base with one out in the 10th, giving Philadelphia its sixth straight loss. Padres 2, Giants 1: In San Diego, pinch hitter John Kruk led off Don Robinson, beating San Francisco. It was the Padres' first pinch-hit homer since July 10, 1987, when Kruk homered off Robinson, then with Pittsburgh. (UPI, AP)

Starling (Draw), Chavez Keep Their WBA Titles

Compiled by Our Staff From Dispatches BRELAND 24, seemed to control the second half of the fight. Judge Jerry Roth scored it 116-113, Starling, while Steve Moretti favored Breland by 115-114. Elias Quintana saw it 114-114. A champion kept his title on a draw. Starling looked sharp in the first four rounds, but although he kept moving forward as the fight drew on, in many rounds he seemed reluctant to punch. In the final three rounds, Breland finally started to throw his right more, although it was anything but the punch that had helped him score 73 knockouts as an amateur. Chavez knocked down Aguilar with two rights to the head with seven seconds left in the first round and stayed in control until the end, although his taller, left-handed opponent fought well and at times made the champion look awkward. But a minute into the sixth round, a right to the head sent Aguilar face forward to the canvas in a neutral corner. He rose at the count of five, but referee Richard Steele stopped the bout. (AP, UPI)

Las Vegas — Marlon Starling retained his World Boxing Association welterweight title with a 12-round draw against Mark Breland here Saturday night, a decision that was roundly booed by a crowd of 6,500 at the Las Vegas Hilton. Breland had been a 2-1 favorite to regain the 147-pound (66.5-kilogram) title he lost on a 11th-round knockout by Starling last August in Columbia, South Carolina. Both fighters are from the United States. In another title bout on the televised doubleheader, Julio Cesar Chavez of Mexico retained his WBA lightweight title by stopping Rodolfo Aguilar of Panama in the sixth round. It was Chavez's 57th victory in as many fights and his 48th knockout. "In the first couple of rounds, I felt very stale," said Breland. "I couldn't put my punches together, but I got better, and I thought I outpunched him in the last three rounds." Starling, 29, was the aggressor and harder puncher throughout. But



CAPITALIZING — Dale Hunter beat goalie Ron Hextall 5:57 into overtime to give Washington a 5-4 victory over Philadelphia in the seventh game of a first-round Stanley Cup series Saturday in Landover, Maryland. Hunter took a pass from defenseman Larry Murphy at the red line; skating in alone, he deked once before putting a wrist shot past Hextall. Only the fifth team in NHL playoff history to overcome a 3-1 series deficit, the Capitals will face New Jersey in the Patrick Division finals, which start Monday night.

